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# **COHESION POLICY OF THE EUROPEAN UNION: EVOLUTION, CHALLENGES AND PROSPECTS**

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**Abstract:** The article analyzes the historical development of the Cohesion (Regional) Policy of the European Union and outlines the main challenges and perspectives facing it. Recommendations are formulated for its improvement in the future.

**Key words:** European integration, European Union, Cohesion policy.

**JEL:** F02, F15, F36.

## **Introduction**

Taking care of the underdeveloped regions of Europe has always been a primary objective of the European Union. In the first three-and-a-half decades of the Union's existence, the task of supporting less favoured regions is left in the hands of national governments. All European nations, inside and outside the Community, spent huge sums on rural infrastructure in the 1950s, 60s and 70s of the 20th century. During this period, electricity and telephone networks were created for each city, village and farm. Roads, railways and provincial universities were built in an attempt to develop the disadvantaged regions. Modern banking becomes available to the rural communities through state-owned post offices, telephones and telegraphs.

The European Economic Community (EEC), as it was known at that time, had rural development programmes, but despite the real poverty in some of the rural areas (for example, Medzogorno in Italy), the funding under these programmes was negligible. Structural costs accounted for only 3% of the EEC budget in 1970, rising to 11% in 1980. The EEC supported rural communities indirectly by increasing the agricultural commodity prices through the Common Agricultural Policy (CAP).

More serious financing for less developed regions became a fact after a change in Community policies. When the first "poor" member state, Ireland, joined the Union in 1973, a new fund - the European Regional Development Fund (ERDF) - was set up to reallocate money to the poorest regions, but its budget was low.

The situation changed in the 1980s, when three new member states were adopted: Greece, Spain and Portugal. These countries were significantly poorer than the other members and their farmers did not produce the goods subsidized by the CAP (wheat, sugar, dairy products and beef). In order for these countries to benefit financially from the Community budget, its spending priorities needed to be changed.

The votes of Spain, Portugal, Ireland and Greece proved to be sufficient for a major change in Community spending. In the accession negotiations of the two Iberian Peninsula countries, the Community promised to increase significantly the spending on the poor regions. The official explanation for this increase was the thesis that economic integration in the sense of the Single European Act (SEA) of 1986 favours the industrial core of Europe. According to the European Commission (EC) website, the goal is to "offset the burden of the Single Market for southern countries and other underdeveloped regions". Community spending on poor regions increased dramatically in the 1980s.

When raising the issue of Monetary union in the negotiations leading to the 1992 Maastricht Treaty, the four poorest countries in the EEC (Spain, Portugal, Greece and Ireland) managed again to obtain a significant increase in regional spending by creating a new fund (the Cohesion Fund), whose resources could only be spent in these four countries. The justification again was that the narrower economic integration favours mainly the industrial center of Europe and the peripheral regions must be compensated by a large increase in funding for poor regions, which in the Community slang is known as "structural costs". The result of all this was doubling the share of structural expenditure in the EU budget in the period 1986-1993.

The relationship between the political influence of the poor countries and the EU budget is clear. The share of the EU budget intended for the poorer regions has been rising with the increase in the share of the votes of poor countries in the EU Council of Ministers. This relationship was particularly strong until the accession of Austria, Finland and Sweden. After 1994, the dependence between the political influence of the poor countries and the structural costs blurred. Large parts of Finland and Sweden, some regions in Austria and all of the former East Germany were declared poor and entitled to structural costs. Over the 2007-2013 programming period, the share of spending for poor regions was increasing, but not depending on the

increase in the share of poor regions' votes. This can be partly explained by the fact that many new member states (NMS) are both poor and highly agrarian, so they are not interested in reducing CAP spending. On the other hand, Spain, Greece and Portugal, which receive little benefit from the CAP, insist on its reduction.

EU cohesion policy has evolved from a purely redistributive mechanism, reflecting primarily the national interests of the member states, to an effective Community instrument for regional development and for economic and social cohesion.

### **1. Evolution of EU cohesion policy over time**

Manzella and Mendez (2009) explored the evolution of the EU CP in the period 1975-2009. Cohesion policy (CP) has undergone a radical transformation over time. The key dimensions of this transformation can be categorized according to a number of constitutional, financial, strategic and operational dimensions.

Absent in the Treaty of Rome, the CP has strong constitutional foundations nowadays. For the first time, economic and social cohesion was introduced into the Treaty through the Single European Act (SEA) of 1986. It was reaffirmed as the central objective of the EU, together with the Economic and Monetary Union (EMU) and the internal market in the revision of the Maastricht Treaty, of 1993. The Lisbon Treaty added a territorial dimension to the economic and social cohesion, providing a basis for potential expanding the scope of policy towards wider spatial problems, although the exact wording remains controversial (Mirwaldt, McMaster and Bachtler, 2009).

Changes in the constitutional basis of policy coincide with a progressive increase in its financial resources. Since the creation of the European Regional Development Fund (ERDF) in 1975, Cohesion Funds have steadily grown from 5% to 36% of the total EU budget over the period 2007-2013. Although the total share of cohesion funds in the EU GDP is low, they are an important source of economic development resources in poorer EU member states and regions. For example, CP funds received in the period 2000-2006 represent 60% of the total public capital expenditure in Portugal, 48% in Greece and 24% in Spain (European Commission, 2007).

Modifications in the CP are large in both strategic and operational terms. Over time there has been progressive transformation of redistributive mechanism associated with the preferences of the member states to genuine regional development policy. It is based on common EU objectives and priorities and is implemented through an innovative implementation system that includes supranational, national and regional administrations.

For most of CP's history, there has been no comprehensive European strategy to guide its functioning. Various periodic reports and guidelines have been set up by the Commission to assess and guide policy, but only with the reforms of 1999 and 2006 the incorporation of the CP into the EU's Common Strategies has been observed for Economic and Social Development (the European Employment Strategy and the Lisbon Strategy). The Council of Ministers, for the first time, has a role to play in implementing the CPs through the strategic reporting clauses of CP's contribution to the EU objectives in the 2007-2013 period.

As a result of these strategic changes, the aspects of "competitiveness" and "effectiveness" of policy have become increasingly important in recent years, at least in the political debates and documents. For many people, including Commissioners, solidarity and redistribution remain key features of the CP, especially in terms of geographic eligibility and financial intensity of support. Fundamental changes have been observed in the area designation approach, which can be considered a defining feature of regional policy (Bachtler and Mendez, 2007). Since the reforms of 1988, most of the resources have been earmarked for the poorest European regions, which are determined on the basis of criteria and averages for the EU. Previously, all resources were transferred to the member states that spent them on projects within their nationally defined priority areas. Outside less developed regions, the geographic zoning requirements introduced in 1988 and refined in the next two reforms were abolished in the 2007-2013 period by transferring the decisions on the spatial distribution of funds to the member states within the framework of the "Regional Competitiveness and Employment".

A key innovation in the CP implementation system in 1988 is the creation of a multi-level governance model involving the collective participation of vertical partners (community, national, regional and local authorities) and horizontal stakeholders (business representatives, trade unions, non-governmental organizations, etc.) in the design and implementation of programmes in accordance with a common set of organizational and functional criteria and rules. While the organizational and functional systems for designing and implementing the development programmes funded by EU differ significantly (as reflecting institutional and cultural differences between and within the member states), the implementation requirements create strong convergence pressures through concepts such as multiannual integrated planning, partnership, monitoring and evaluation, good practices, etc.

Numerous committees, networks, guidelines and activities provide continuous interaction between different levels, resulting in close links between European institutions, national authorities, the private sector and civil society. This contributes to the development of a polycentric transnational

administration that shares common values, acts through bodies organized on the basis of the same principles, follows the same procedures and speaks the same technical language. In recent years, the CP has become global through the launch of structured dialogues with non-EU countries (Brazil, China and Russia) and other international organizations (MERCOSUR).

From an evolutionary point of view, CP represents much more than merely redistribution of resources from wealthy member states to the poor ones, although redistribution is still a characteristic of it. The CP has become a powerful regional development tool with the potential to channel resources to achieve EU objectives and to improve administrative practices and culture across Europe.

In its evolution, CP has encountered many problems. One of the recurrent problems is the desire to improve the effectiveness of governance arrangements by seeking an optimal balance between the principle of conditionality (to channel resources for achieving EU objectives) and the principle of subsidiarity (to allow flexibility for the most effective use of the resources). This affects the evolving relationship between the Commission and the member states. For example, in the reforms of 1993 (for the 1994-1999 period) , the Commission took a stronger and more active role in negotiating plans and OPs, backed by stronger regulatory requirements for the use of funds. In the next programming period 2000-2006, the responsibility for the key elements of the design and implementation of the programmes was delegated to the member states while the Commission extended its influence in monitoring, evaluation and control of the end results with strengthened regulatory requirements in these areas. This trend continued in the 2007-2013 period when the Commission was less involved in the actual implementation of the policy, shifting its focus to audit and control issues the strategic issues with varying degrees of success.

Table 1 shows the objectives of EU regional policy for the 2000-2006 and 2007-2013 programming periods. There is no significant difference between them, although there is a further focus on the poorer regions over the period 2007-2013 and most of the cohesion expenditure should be explicitly motivated to help the regions meet the Lisbon criteria for boosting growth, employment and innovation.

## **2. Challenges and prospects for Cohesion policy**

The future of EU Cohesion policy has been considered in two reports by the European Committee of the Regions. The first report (European Committee of the Regions, 2015a) outlines the trends and main aspects of

effectiveness, efficiency and governance of Cohesion policy from the point of view of local and regional authorities (LRAs). The second report (European Committee of the Regions, 2015b) presents models and ideas for the future of Cohesion policy.

**Table 1. Comparison between EU regional policy objectives for the 2000-2006 and 2007-2013 programming periods.**

2000–2006	2007–2013
Objective 1: Regions lagging behind in their development Cohesion fund (money allocated to Spain, Portugal, Greece and Ireland)	Convergence
Objective 2: Economic and social conversion areas Objective 3: Training systems and employment policies Various cohesion programmes: Interreg III, URBAN II (financed by the ERDF) и EQUAL (financed by the ESF)	Regional competitiveness and employment European territorial cooperation
Programmes based on CAP Leader + EAGGF-Guidance Rural development and restructuring of the fishing sector beyond Objective 1	Second pillar of the CAP

**Source:** Cohesion Policy 2007-13: Commentaries and Official Texts, January 2007, DG Regio, p. 10.

## 2.1. Challenges facing Cohesion policy

Regions and places are considered to be key levels in establishing effective coordination of the policies that offer a set of challenges. On the one hand, their capacity to manage the EU's public investment policy is heavily influenced by differences in political and administrative systems in the EU. On the other hand, this capacity is influenced by external economic and social conditions such as demographic challenges, economic downturn in rural areas, population growth, and financial accumulation in growing urban areas.

Closer cooperation between regional and local partners in the member states and their participation in the development and implementation of partnership agreements and operational programmes are important in all stages of policy. The strong commitment that offers the opportunity to shape policies and investment priorities according to actual local / regional needs can be ensured through the representation of the managing authorities or the intermediate governing bodies through LRAs. They can assume the role of passive recipients or active policy strategists - the determinant here is the real burden of LRAs in coordinating the different policy approaches formulated by actors at national and local level. The regions managing regional operational

programmes in countries with a long tradition in regional European structural and investment funds (ESIF) programmes (Germany, Spain, France, Italy) benefit from longer-term budgetary commitment to specific development objectives that combine funds from EU, national states and funds at the national level.

On the other hand, in the regions that manage regional operational programmes in countries with a decentralization process (Czech Republic, Poland, Slovakia), the stable longer-term financial instruments lead to a decisive change in the capacity for self-government. In these regions, the financing of local infrastructure is gradually being replaced by more innovative and broader types of interventions. This includes all the challenges posed by less developed intermediation whose support in the implementation of programmes in developed regions is an important factor for their success.

Coordination of structural funds policy at member state level implies (a) a focus on strategic issues and guidelines to support the speed of policy implementation and (b) lack of communication options and experience for regular exchange of information between operational units. It is useful to involve LRAs in interministerial committees linking the sectoral ministries that coordinate the ESIF at national level to improve the operational management of programmes. In countries where such committees don't exist, it is recommended that LRAs be more closely involved in monitoring committees as a coordination mechanism of the ESIF.

The low participation of local authorities in the programming process, as well as their poor representation in partnerships, weakens their management capacity and their capacity to implement the projects. The adaptability of institutions and the process of collective learning are dependent on institutional architecture at national level. This problem can be resolved by assisting member states and different partners in building their own strategies. The focus may be on public innovation policies such as risk assessment training.

From a structural point of view, the project implementation rules need to be simplified and current bureaucracy must be reduced by innovative approaches and improving internal and external communication channels.

The on-site approach favours the mobilization of stakeholders (including the private sector) and their specific territorial expertise. Compatibility between pan-European overarching goals and territorial realities can be improved (Boehme et al., 2013). The link between political decisions and prospects for people can be enhanced by linking efficiency and democracy, transparency and top-down approaches.

In order to identify the challenges facing each territory and to help define the strategic objectives of a specific region in relation to EU policy, a territorial forecasting approach may be used. The link between cohesion policy funding and sub-national budgets, including the provisions of the

Stability Pact, should be clear.

Regarding eligibility to EU funding, the conventions that stimulate regional policy in the member states can become a tool to meet regional needs. It may be useful to create a single EU mono-fund that supports regions in accordance with their specific needs and challenges.

The implementation of a proportionate audit system, based on a new approach for cooperation and the principle of multi-level governance, needs to be improved. The future evaluation system should be based on more appropriate indicators and effectiveness should be linked to a result-oriented approach.

In terms of accountability, transparency and results orientation, stimulating further exchange of best practices and cases between regions is becoming more and more important.

To overcome the acute economic divide between regions in the EU, the LRA should be adequately involved in the design and implementation of national responses to the strategic framework of the EU for the forthcoming programming period. This will be easy for countries with long tradition of regional self-government, but will pose a significant challenge to some NMS where regional governance is still at an early stage or there is no self-government in the regions. In the latter case, the strategic disruption between national policy goals and local interventions can be even greater. It is necessary that national states and European institutions (in particular the EC's Regional Policy Directorate) provide for proactive guidance in translating strategies into action at local and regional level. New, more pragmatic governance approaches are needed. On the other hand, it is important to show a wider variety of options to local and regional stakeholders in order to avoid the widespread duplication of similar events at the local level (European Committee of the Regions, 2012).

## **2.2. Prospects for Cohesion policy**

As proposed by Barca (2009), the CP is based on the additionality approach, ie. it supplements but does not replace the equivalent public expenditure of the member states. Unlike the 2007-2013 programming period, the CP in the current programming period (2014-2020) is in line with the Europe 2020 strategy (through an orientation to 11 thematic objectives drawn from the strategy) and the European semester (by considering country-specific recommendations and the national reform programme). The CP is given more attention in the current period due to its specific budget burden (about 32.5% of the EU single policy budget), thematic coverage, spatial orientation, its placement in partnership agreements and operational programmes and EU reporting requirements (progress reports, strategic report 2017-2019, follow-up policy measures at EU

level). CP is not independent, and it comes with tools that are based on sectoral policy implemented by an on-site approach (river basin management plans, research and innovation strategies for smart specialization - RIS3).

Forecasts for the future of CP are of limited value because of the huge number of uncertain internal and external factors. Four scenarios can be outlined, each of which presents possible future situations, influential factors, causal relationships and outcomes (European Committee of the Regions, 2015b):

1. Stability and abundance of resources;
2. Stability and scarcity of resources;
3. Instability and abundance of resources;
4. Instability and scarcity of resources.

Of these scenarios, the third and fourth deserve more attention because of their potential to develop a qualitatively different future CP.

**The "Instability and abundance of resources" scenario** refers to a situation where there is a relative abundance of resources in an unstable and multipolar world in terms of geopolitics. The market economy fails to deal with its shortcomings and allocate resources efficiently, and the indiscriminate competition for resources will exist at all levels: national, international and local. The financial resources of the CP can be directed to the exploitation of resources and increasing return on investment, ultimately leading to rising inequality and thus undermining its own strategic orientation.

**The "Instability and scarcity of resources" scenario:** Negative geopolitical development, financial crises and social discontent will be combined with a significant decline in the average standard of living on a global scale. This will lead to a vicious circle of divergent trends in the world's population (migration, urbanization), tension and destabilization at the local level, and a high-risk society. "Cohesion" will become even more important as a policy instrument: it can offer groups of countries / regions (such as the EU) real goals for better coordination and survival. Unlike today's CP, the reason for a future CP will be to optimize the use of scarce resources based on common sense and sound economic logic. The focus on the group of countries / regions will shift from trying to prove economic straightness of disputed goals of leaders to achieving a sustainable synergistic state of risk mitigation.

**In the "Instability and abundance of resources" scenario**, despite the differences between economic and territorial perspectives, policy measures can be summarized as follows:

✓ Regarding the environment, policy actions are expected to focus on the exploitation of natural resources by investing in infrastructure, although conservation levels may be lower than today's;

✓ In the labor market, policy measures will follow a model similar to the current CP, but with a stronger emphasis on regulation and control;

✓ Social policies and health care, although only peripherally involved in the CP, will be influenced by the way in which the infrastructure is provided. Political responses must become more innovative in order to adapt to the changing and seriously fragmented demand;

✓ Education and closely related research and innovation policies are considered to serve the economic CP. Political responses will have to change, on the one hand, to attract people fleeing from geopolitical instability to education, research and innovation and, on the other hand, to adapt to the potential and needs of the regions in the sense of research and innovation strategies for smart specialization - RIS3. Geo-political instability will also affect logistics channels and potential markets;

✓ The transport and energy network and infrastructure and their development will continue to absorb significant resources, but their orientation will change. Political reactions will deviate from their current form and become more specific. Instead of providing basic technical infrastructure, they will have to guarantee multimodal and alternative routes and security;

✓ In the SME sector and entrepreneurship, policies will need to focus more on the satisfaction of the EU internal market (assuming that stagnation policies will be eased to sustain demand in an aging Europe).

**In the "Instability and scarcity of resources" scenario**, despite the differences in economic, social and territorial terms, policy measures can be summarized as follows:

- Regarding the environment, policy responses should place a stronger emphasis on the security of resource provision, on eco-efficiency and risk management;

- In the case of labor market policy responses will face major challenges and will have to adjust their goals, instruments and the very concept of what it means inclusion in the labor market;

- Social policies and healthcare will undergo similar changes like those of the labor market. The financial crisis, migration and instability can lead to calls for a reduction in "social services" in order to ease the economy from this "burden". Political responses will have to undergo paradigm shift and invest in sustainability and pro-activity. The forerunner of these changes is the development of childcare in Eastern Europe. The system there is gradually changing from institutionalization to individual voluntary care in foster families. Public authorities are reluctant to start changes in this area, although empirical studies show higher benefits and lower costs in deinstitutionalized childcare;

- As for education and closely related to it research and innovation, policy responses will need to place greater emphasis on green skills, decentralization and innovation, open innovation and shared use of resources; proprietary approaches and commercialization will weaken;

- The development of transport and energy networks and infrastructure will face a shortage of financial resources. Political responses will have to put a higher priority on investment but at the same time maintain a certain level of connectivity, guaranteeing the Union's functionality;

- In the SME sector and entrepreneurship, political measures will need to focus on satisfying the EU's internal market in conditions of low or no growth; Therefore, SME policy will have to focus on small flexible units that can adapt their production as well as on flexible entrepreneurs. These are micro-enterprises and sole proprietorships, which are considered an indicator of underdeveloped economies these days.

The cost of lack of CP is very different in both scenarios.

Under **the scenario of "Unstableness and abundance of resources"**, assuming the CP will favour temporary alliances and short-term goals, the lack of CP will lead to a slower achievement of these goals as there will be no source of co-financing. This will not change the CP's fundamental model of action.

In the **"Instability and scarcity of resources" scenario**, the CP's role is closer to the original concept. This role will be accentuated by the pressure of insecurity. In the absence of CP, scarce resources and funds will be directed to immediate satisfaction of demand and short-term relief of problems. All intentions of experimentation (an important aspect of CP), innovation, and precautionary management will yield to the reactive preservation of the existing status quo in a vicious circle. Under this scenario, the cost of lack of CP is significant.

### **3. Importance of the cohesion policy for the development of the Bulgarian economy**

The importance of absorbed EU funds for Bulgaria is great for the following reasons:

- EU funds are an important source of financing for investments in Bulgaria, which directly increases capital stock in the Bulgarian economy;
- EU funds contribute to the creation of innovation and raise the technological level of the economy;
- The European Social Fund finances projects that improve the quantity and quality of human capital;
- EU funds finance the construction of important public infrastructure objects that attract foreign investment and stimulate economic growth.

Increasing capital stocks, human capital formation and infrastructure building increase the productive potential, productivity and competitiveness of the Bulgarian economy, which in the long run should raise the standard of

living in Bulgaria and help reduce the differences in the development compared to the advanced western European countries.

## **Conclusion**

Structural Funds are not spent on projects defined at European level. The choice of projects and their management are the sole responsibility of national and regional authorities. These projects are co-financed by national and EU funds. The principle of additionality requires that EU funds should not be used to save national resources. This principle is difficult to implement because national budgetary priorities often change and it is difficult to estimate how much the member states would spend if there was no EU funding.

Besides the principle of additionality structural costs are characterized by five other guiding principles:

- Concentration. The costs must be geographically concentrated;
- Coherence. The costs must be in the context of the broad development programmes drawn up by the EU member states and approved by the EC;
- The Commission, the member states concerned, regional and local authorities, businesses and trade unions must cooperate in spending;
- Monitoring and evaluation. The costs must be monitored and evaluated;
- Consistency and complementarity. The costs must be consistent with the provisions of the Treaties and Community policies such as the single market, CAP and others.

Member states will preserve their strong role within the prevailing regulatory level of governance and in the coordination of national policies, but a successful CP will need a stronger engagement with LRAs. The LRA's capabilities (staff, budget, etc.) are key to the successful implementation of the on-site approach.

While sustainable development (in its environmental dimension, as defined in the regulation of the general clauses) is usually well integrated into the policy implementation system through a series of regulatory mechanisms, the equal opportunities are still underdeveloped.

The following recommendations can be made to the future CP:

- Creating a less uniform regulatory framework. There is a clear need for a more strategic programming approach at member state level and for a stronger role of LRAs. It is necessary to change the paradigm from conditional programming to an approach of final determination. The current follow-on principles for conditionality can be a model to follow;
- Ensuring effective and efficient use of resources. LRAs and member states will have to rethink the need to comply with the "industry standard"

and focus on meeting needs rather than demand. The main challenge is the design and functioning of the labor market, social policies and education;

- Public-private partnerships and mobilization of private funds and investments;

- Meeting the CP's needs in terms of governance and the territorial dimension. There is a need for a high quality management at LRA level beyond the level of decentralized units. A territorial approach has to be formulated and integrated into CP principles, measuring the effects and identifying their links to policy and budget.

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  - title of article, name of author, academic position and academic degree – font Times New Roman, 14 pt, with capital letters Bold – centered;
  - workplace, postal address, telephone and E-mail;
  - abstract in Bulgarian up to 15 lines; key words – 3 to 5;
  - JEL classification of publications on economic topics (<http://ideas.repec.org/j/index.html>);
  - main body (main text);
  - tables, graphs and figures are software inserted in the text (they should allow linguistic corrections and translation in English). Numbers and text in them should be written with font Times New Roman 12 pt;
  - formulas are inserted with Equation Editor.
- 5. Rules for footnote:** When citing sources, authors should observe the requirements of **APA Style** at <http://www.apastyle.org/> or at <http://owl.english.purdue.edu/owl/resource/560/01/> or at <http://www.calstatela.edu/library/guides/3apa.pdf>.  
Each author is responsible for promoting ideas, content and technical layout of the text.
- 6. Manuscripts of lecturers without an academic rank** should be accompanied by a transcript of the minutes of the Department meeting at which the proposed paper was discussed.

**From 1st of January 2017 the English language title of the journal is changed from “Narodnostopanski archiv” (transliterated from Bulgarian) to “Economic Archive”.**

**Authors of papers published in Narodnostopanski arhiv journal are responsible for the authenticity of the materials.**

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