

EUROPEAN UNION COHESION POLICY

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Abstract. Cohesion Policy is the only policy in the world that implements equalization of the development of so different territorial units. The impact of Cohesion Policy on the development of Member States has to be attributed to the economic development levels of the Member States, the size of the Member State, its economic structure, political situation, administrative traditions and the ability to exist and overcome economic crises. The most significant financial instruments used for attaining the objectives of the Cohesion Policy are the various EU Funds. Regarding the assistance of the strategy Europe 2020, the most significant investment in Member States is related to the development of less developed regions, rural support and the Cohesion Fund. During the researched period, the Cohesion Policy has affected the economic achievements of the Member States. Evaluating the economic development indicators of the EU Member States, it can be concluded that they differ significantly from the indicators described in the EC third and fourth report and move away attainment of the goal of Europe as a developed economic region to unforeseen future. The current experience indicates that the funding allocating for implementing the Cohesion Policy has been insufficient. In the future, the Cohesion Policy requires looking for additional alternative types of resources along with the existing ones, developing new forms of governance, developing qualitative indicators for measuring the development. The research aim: to analyse the development of the Cohesion Policy from 1988.

Key words: cohesion, policy, strategy, funds, indicators.

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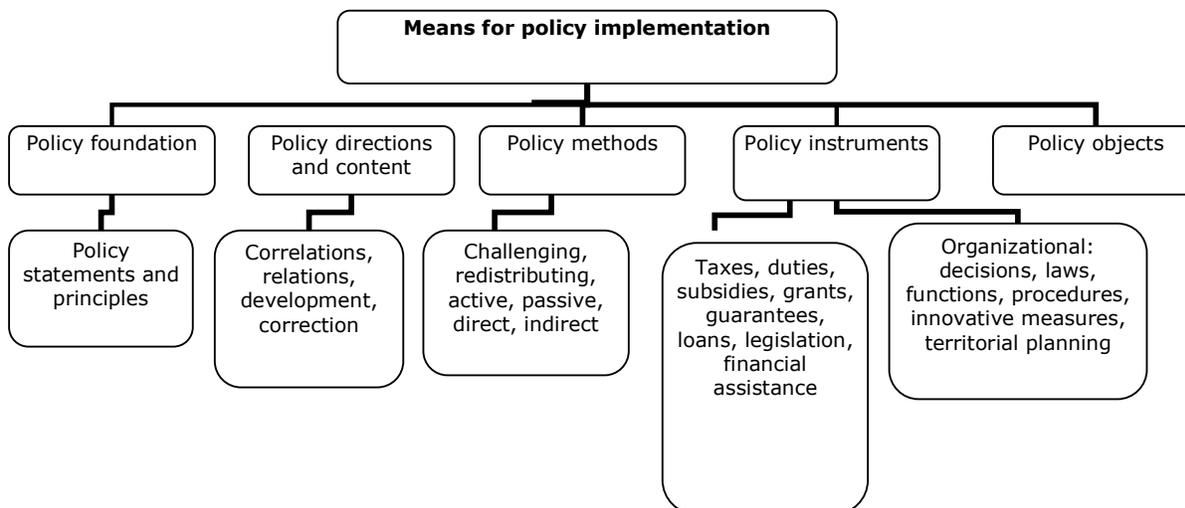
Introduction

Nowadays, the preconditions of a policy and the processes related to it have to be attributed to the structuring of the Member States of the European Union (EU), which causes the development of various interests between different EU Member States and their groups as well as the understanding of the policy makers about the policy goals to be attained at different levels of its implementation. Alternatively, what one participant requires is not suitable to another. At present, the EU Cohesion Policy can be considered the most progressive policy because through constant introduction of innovations for the common EU development, it attempts to preclude the differences of the development levels currently existing between the Member States in order to make the dream about an ideal, democratic society come true, trying to balance interests of every EU member.

Hence, it can be considered that policy is an instrument for beneficial social and economic changes to occur in society. Therefore, a policy requires means for its implementation.

As it can be seen in the figure (Figure 1), the means for policy implementation comprise the foundation on which a policy is based: statements and principles; direction and content; methods; instruments and objects.

According to EUROSTAT data, in 2015 the European Union (EU) comprises 28 Member States, which form a single community with a domestic market of 508.2 million inhabitants. Economic and social differences between these states and their 274 regions are self-evident. The larger the single European region becomes, the larger the level of life differences can be observed. The Cohesion Policy is applied to reduce these differences between the Member States.



Source: authors' construction

Fig. 1. Means for policy implementation

Since 1986, the goal of the Cohesion Policy has been to strengthen economic and social cohesion. The Lisbon Treaty and the EU new high-level strategies ("Europe 2020") are introduced the third dimension – territorial cohesion. The notion of territorial cohesion indirectly includes a more harmonized and sustainable development that would allow a more balanced and sustainable use of resources creating economic benefits from less overload and reducing pressure on prices, and thus the quality of both environment and life would improve.

Officially, the European Parliament (EP) approved the Cohesion Policy in 1988. The policy was founded on four basic principles – concentration, programming, partnership and co-financing. In the governance mechanism of the new policy, a special attention was paid to the partnership principle and to many-level governance because the decisions would be made at the Community, national and subnational levels.

For the first time, the notion 'cohesion' was used in the Article 174 of Section 18 of the Treaty on the EU, and it provides that economic, social and territorial cohesion are related to a general and harmonious development of the Union's territories, especially to reducing the backwardness of the least developed regions and the differences between the development levels of various regions. The Treaty provides that the Union develops and executes measures; the Member States implement and coordinate their economic policy to attain the goal of economic, social and territorial cohesion. Likewise, the Treaty provides the instruments for implementing the Cohesion Policy – the EU Structural Funds: the European Agricultural Guidance

and Guarantee Fund (EAGGF), the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Investment Bank and other existing financial instruments. Along with the approved policy, the Treaty introduced the Cohesion Fund (CF) (Liguma par Eiropas..., 2012).

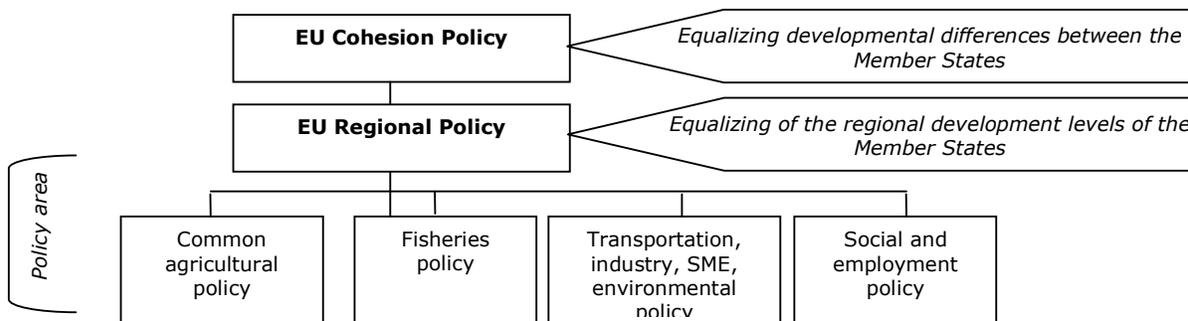
Research results and discussion

Summarizing the essence of the definition of cohesion by B. Melnikas (Melnikas B, 2013), J. Bachtler, C. Mendez and F. Wislade (2013), the EU dictionary of terms (EuroVoc, 2014), Latvian Academy of Science (Akadterm, 2014), it can be seen that it is related to the effective use of territorial resources, single market for goods and services, increasing the labour force qualification, reducing the gap between different social layers and territories. Various authors possess similar opinions about the significance of Cohesion Policy.

According to several theoreticians, the Cohesion Policy is placed as the top one in the hierarchy regarding its significance (Figure 2). Modern English economist C. Rumford (2000) sees the Cohesion Policy as a combination of different EU policies. J. Bachtler, C. Mendez and F. Wislade (2013) consider the EU Cohesion Policy to be the most difficult EU political project to be implemented, which provides indications about the Union's values, and the development of the Cohesion Policy is closely related to the expansion of the EU as a single region – the wider the single European region becomes, the bigger changes take place in the Cohesion Policy. Economists-theoreticians in Latvia – E. Dubra, E. Kassalis, I. Skribane, S. Eglite, A. Ozola (2003) emphasize the Cohesion Policy as the

primary one and the other policies as its components. Therefore, the objective of the Cohesion Policy is to reduce differences at the level of the EU Member States. The objective of the regional development policy is to reduce differences between the regions of the Member States through implementing various

structural policies. Based on its essence, the Cohesion Policy can be placed at the top of a hierarchy because it comprises smaller territorial elements of the regional policy and various policy areas are used for reducing their differences applying instruments directed at structural changes.



Source: authors' construction

Fig. 2. Components of the EU Cohesion Policy

The Cohesion Policy has both supporters and critics. As the economists J. Bachtler and G. Gorzelak (Bachtler J., and Gorzelak G., 2007) consider, one of the biggest problems of the Cohesion Policy is difficulties to ensure reliable policy of economic matters, based on convincing evidence on its effective outcomes. After more than thirty years of policy implementation, its contribution to economic development and growth is still questionable and unclear.

However, G. Cotella (2013) is of an opposite opinion. He has concluded that the EU Cohesion Policy is being implemented in a multi-level environment in which there is a movement: to enhancing social and economic approaching in Objective 1 regions, maintaining competitiveness in Objective 2 regions and strengthening territorial cooperation in Europe in Objective 3 regions. Although the goals are different, each of them increases the territorial capital of the region. However, it can be unequivocally concluded that the development of backward regions is possible only on the expense of the developed states but the single European region is as strong as its weakest member is. Along with these opinions, the Cohesion Policy can be related to ensuring regional balance in the territories of the Member States, which has to be considered the economic category, which allows for mutual comparison the development levels of the Member States of the entire EU region.

Hence, the main idea of cohesion is related to reallocation of resources, where the richer territories support the less developed ones. The EU Parliament and Commission regulate the flow of the necessary

resources. For ensuring the principle of justice while implementing the Cohesion Policy, the EU NUTS system has been introduced based on the policy. NUTS is used to structure the European Community Cohesion and other policies, determining regions that qualify for the support of the EU funds. In 1988, criteria were introduced to have the possibility to define geographical suitability for receiving funding, based on statistical data. To define the average size of a NUTS region, the EU regulation provides the minimum and the maximum limit for the population size, which in certain cases may be insignificantly increased (Common, 2003). Every NUTS Level 1 region is divided into smaller NUTS Level 2 regions, which in turn are divided into NUTS Level 3 regions. According to the definition of the Statistic Bureau of the European Community (*Eurostat*), in 2015 there were 274 NUTS Level 2 regional units in total. Likewise, the Cohesion Policy uses the notion 'target regions'.

The EU funds were established to facilitate the development of economic and social processes in the Member States and their regions with the help of financial resources. The Cohesion Policy is implemented through three funds:

- the goal of the European Regional Development Fund (ERDF) is to strengthen the regional economic and social cohesion investing in growth facilitating industries in order to improve competitiveness and create workplaces. The ERDF also finances cross-border cooperation projects;

- the European Social Fund (ESF) invests in population education with the aim to improve employment and education opportunities;
- the Cohesion Fund ensures investment in the 'green growth' and sustainable development, and it improves compatibility within the territories of the Member States in which the GDP does not reach 90% of the average EU-27 Member States' indicator. The Cohesion Fund, together with the European Agricultural Fund for Rural Development (EAFRD) and the European Marine and Fisheries Fund (EMFF) form structural and investment funds (ESIF) for the period of 2014-2020.

The use of the resources of Structural Funds and other funds is organized through different projects. Administrative and legal framework for governance has been developed at both EU and Member State level. At the EU level, these are regulations, at the Member State level – legislative documents about the use and administration of funds, strategic planning documents for acquiring the resources. An administrative framework has been developed in the Member States to administer the resources. Agreements are signed between the EU and the Member State on the planned measures of the Cohesion Policy and the required funding.

The Cohesion Policy is planned and implemented for a specific period. Initially, in the period 1989-1993, it was planned for five years, in the period 1994-1999 the policy implementation lasted for six years but starting from 2000, the Cohesion Policy is planned for a seven year period.

The significance of the Cohesion Policy has increased over time. The funding allocated for attaining its goals has increased more than 7 times from 1988 to 2020. The largest investment is planned for the period of 2014-2020 – EUR 453 bln, which is 36% of the total amount of financing. The Policy, since its introduction until 2020, will use Euro 1.2 trillion. In every policy period, the largest proportion of funding, about 64%, is devoted to regions whose development significantly lags behind.

Since 1988, goals have been set and strategic planning has been performed for every period of the Cohesion Policy. The basis of strategic planning is formed by regional development plans submitted by the Member States, which establishes settings for the negotiations between the EU and a Member State about receiving the support. Each Member State develops its

vision on the measures to be taken. In the periods of 1994-1999 and 2000-2006, the improvement of the effectiveness of the Cohesion Policy, strategic planning was connected with Objective 1 – support for regions whose development is lagging behind. Likewise, since 1994, the Policy (**Objective 1**) has supported territories with low population density. Starting from the period of 2007-2013, the EC and the EP adopt strategic principles, based on which the Member States define their strategic needs. Initiatives are advanced; goals are defined and integrated in the action programmes of the Member States at the community level. The Policy has supported the developed regional territories since 2014.

In the periods of 2000-2006 and 2007-2013, a decentralized responsibility has been assigned for the execution of the programmes to be implemented by the Member States, which was not determined at all until 2000. Decentralization means that the Member State should take the lead and develop its vision. As a result, the basis for the mutual partnership of public structures and public sector is being established, with a number of involved stakeholders – social partners, chambers of commerce, enterprises, development agencies, housing organizations, semi-autonomous non-governmental organizations, environmental agencies, social organizations, educational establishments of all levels, architects and artists.

The largest allocated funding, exactly for regional convergence - 84% - can be observed in the period of 2007-2013. The largest investment in the entire history of the Cohesion Policy is planned for the 2014-2020 period; a combination of various factors is used when implementing the Cohesion Policy for making the social and economic situations in the Member States more favourable. Thus the governance policy of the EU region – the Cohesion Policy – is designed taking into consideration the specific characteristics of the territory as well as by combining different mutually related policies – regional, youth, social, rural, fisheries etc. in order to attain wise, sustainable and integrating growth.

The world recession of 2009 showed the structural drawbacks of European economy, how much mutually dependant the economy of the EU Member States is. In 2010, the European Commission proposed the strategy document "Europe 2020". It argues the need for new goals for the development until 2020, and it can be considered the strategic framework for the Cohesion Policy and other structural policies. A single strategic

framework, which substitutes the strategic guidelines of the community and implements the main EU priorities, will refer to all funds, including the rural development and fisheries and marine policy as well as will provide better coordination of the EU funding.

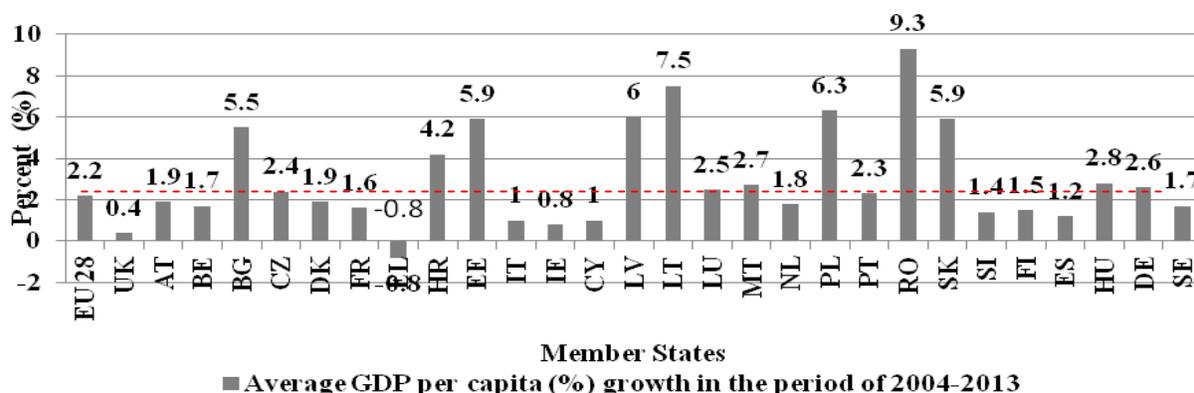
In the period of 2014-2020, to ensure a better reporting responsibility, more attention is paid to the outcomes. Clearer and measurable targets are defined for the Policy, a new term has been adopted – the EC can terminate funding payments to a Member State that does not provide correspondence to the EU requirements in economy. The Cohesion Policy has defined 11 thematic goals that support growth.

Evaluation of the Cohesion Policy should be linked to the economic development levels of the Member States, the size of the country, the structure of the economy, the political situation, administrative traditions, and the ability to exist and overcome the economic crisis. Economic and social inequality between the Member States has deepened due to the expansion of the European region because the twelve new EU Member States had significantly fallen behind the old Member States in their development.

To determine the impact of the Cohesion Policy on the development indicators of the Member States, the available Eurostat data - GDP per capita - was analysed for the period of 2004-2013. This is the indicator of the economic welfare of a country and it allows evaluating the economic activity and development, and is considered a resultative indicator of the Cohesion Policy. Having analysed the average economic growth from 2004 to 2013 (Figure 3), it has to be stated that the economic achievements of the impact of the Cohesion Policy vary. The average GDP per capita indicator in the EU is 2.2%. Member States in which these indicators are above the average can be stated: Sweden, the Netherlands, Malta, Denmark, the Czech Republic, Bulgaria, Belgium and Austria. In six Member States, these indicators are significantly higher – Estonia, Latvia, Poland, Rumania, Slovakia, Germany, there the average growth indicator increases the

average EU indicator within 20-60% limit. In the other Member States, the average GDP per capita is below the EU average. The forecasted indicators mentioned in the third and the fourth progress report on the Cohesion Policy by the EC are much higher but the forecast did not take into account the potential impact of the recession on the economy of the Member States. As a result, the goals defined by the Cohesion Policy have been only partly attained.

However, reports have shown poor results of the impact of the Cohesion. In Greece, the GDP per capita has decreased by 0.8% a year on average per period (Figure 3), which indicates that the development of a Member State has worsened during the period because of the Policy. Already long before the recession, the budget policy of Greece indicated to the inability of Athens to limit the country's liabilities. Since accessing the Eurozone, Greece had not been capable of ensuring deficit below 3% of the GDP, as the agreements of the European Union provide. The budget deficit was constantly increasing, from 4.8% in 2002 to 6.5% in 2007. The national debt in Greece increased and already before the recession, it exceeded 100% of the GDP. A higher effectiveness of the Policy investment is possible in Member States that are implementing a certain financial discipline of the state, which allows concentrating the Cohesion Policy instruments on equalizing the development differences. A similarly significant is the ability of the Member States to design national development strategies that solve reduction of differences within the regions. The authors do not want to agree with the opinion of the Greek economist and Eurosceptic Y.Varoufakis (2012) who considers that the case of Greece indicates to the weakness of the EU Cohesion Policy, which is a strong signal that not everything is good with the Policy. As it is being announced in the public space of Greece, the policy requires serious changes in the future. According to the authors of this research, changes are necessary but at all possible levels. The failure of the implementation of the Cohesion Policy is not always the EU responsibility.



Source: authors' construction (Eurostat)

Fig. 3. The average GDP per capita growth in the EU Member States in 2004-2013 (%)

Once in three years, the European Commission submits a report to the European Parliament, the Council and Committee on Social Affairs and Regional Committee about the achievements in the economic, social and territorial cohesion and about how the different resources provided in this article have facilitated it (Liguma par Eiropas..., 2012).

The Member States need to: emphasise the specific advantages of the internal regions; follow and strictly observe the principles of competent regulation, ensuring the dynamics of entrepreneurship, especially supporting the development of SMEs; strengthen the innovation ability, quality of life, social cohesion and environmental sustainability. The goals of the Cohesion Policy should be measurable by applying qualitative measures, which have to be developed so that not only the growth but also the development was stated.

Conclusions

The Cohesion Policy is the only one in the world that implements equalizing of the development of so different territorial units.

The main idea of the Cohesion Policy is reallocation of resources where the richer territories support the less developed ones.

The notion 'cohesion' was used for the first time in the Treaty on the EU that states its goal – reducing differences between the Member States and their regions.

Historically, the year 1988 can be considered the starting point of the Cohesion Policy. The policy is founded on four basic principles: concentration,

programming, partnership and co-financing. The policy management mechanisms are the principle of partnership, multi-level governance, decision making at the Community, national and subnational levels.

The Cohesion Policy comprises diverse more detailed territorial elements of the regional policy in order to reduce territorial differences when applying instruments targeted at structural changes.

The Cohesion Policy implementation tools – the EU Structural Funds and funds. Structural Funds are envisaged to enhance structural adjustment in particular industries or their combinations. The objective of the Fund – to reduce differences at the level of the Member States. Use of the resources of Structural Funds and funds is being organised using various projects as intermediaries.

The Cohesion Policy is planned and implemented for a certain period; its significance has grown over time. The funding allocated for attaining goals from 1988 to 2020 is EUR 1.2 trillion.

The impact of the Cohesion Policy on the economic achievements of the Member States differs. A higher effectiveness of the Policy investment is potential in the Member States that have a particular state financial discipline, concentrating funds on equalizing exactly regional differences as well as competently following the regulation principles of the policy implementation.

The impact of the Cohesion Policy on the economic achievements of the Member States depends on the ability of the Member States to develop national development strategies on the specific regional advantages.

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