

# PERSPECTIVES ON IMPROVING COHESION POLICY SPENDING

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**Abstract:** *The aim of this paper is to reveal and summarize the latest visions and opinions published in articles and academic papers on the evaluation, institutional factors and the future of the European Cohesion Policy. The literature on the economic, territorial and social integration is vast and great emphasize has been put into the techniques, policies and instruments used in achieving these goals. The paper identifies some of the currents of opinion starting from cohesion evaluation methods and heading towards methods, techniques and policies for intervention without claiming to be an exhaustive endeavour. The article concludes with the summarising of the main opinions on the trends, directions and future of the European Cohesion Policy.*

**Keywords:** Cohesion Policy, Territorial Cohesion, Social Cohesion, Structural funds, Institutional performance.

**JEL Classification:** E02, E61, O52, R11, R58

## 1. INTRODUCTION

The European Cohesion Policy (CP) is a subject for ample debate in the context of uncertainty imposed by the current economic crisis and the expansion of the European Union (EU) towards the east. Issues such as growing disparities between member states and especially between regions of the EU with high risk of disintegration, slow and hesitant economic growth, concentration of wealth and prosperity, institutional inefficiency and growing dependence on structural funds are all topics that need urgent addressing. Thus, the expectations on the CP are high and the growing number of issues it faces makes it the key element for securing a future for Europe. Up to now the results delivered have not been all up to the goals set and there is growing pressure from the citizens as well as politicians to improve the CP in order to make it more efficient and cost- effective.

## 2. EVALUATING THE COHESION POLICY

For the evaluation of the level of cohesion, the trends followed and the impact of the CP there have been specific instruments elaborated especially within the European Commission (EC).

The analysis instruments used can be grouped into three main categories: simulation models, case studies and econometric evaluation (Edereveen et al., 2006). All of these instruments are based mainly on two macroeconomic indicators: GDP per capita and level of employment or its most undesired opposite, rate of unemployment. Only in depth analysis and case studies extend beyond these two main indicators and evaluate indices that relate more to quality of life (access to education and healthcare), quality of the environment, and level of development of transport and communication infrastructure. This is mainly because of the difficulties encountered in elaborating such analysis: inconsistent data, the lack of generally recognized indicators and lack of compatibility of statistical data between countries. The most extensive analysis can be found in the Cohesion Reports released every three years and in the Progress reports elaborated annually by the EC. There are studies and analysis outside the EC but these concentrate either on specific local/regional environments or analyse the main indicators on the broad European level.

Efforts of evaluating the CP are made even harder by the fact that it is very difficult to create the “without intervention scenario” and the policy has further added value resulting from the principles applied. The EC argues that the CP brings added value through the mobilization and concentration of public investment on most important fields (through the principle of co-financing), strategic and multi annual approach to investment, partnership building, promoting transparency and project management efficiency (Bachtler și Gorzelack. 2007). Because of the fact that these effects are difficult to measure they are not included in the CP evaluations.

Another important fact to take into account is that at the present moment the vast majority of evaluation takes place after or during the implementation periods of programmes and projects. Although these analyses are more accurate than ex-ante models the results may come late and compromise the ability to change and adjust policy objectives in time for the next programming period. Moreover, the conclusions brought by the CP implementation in the EU15 before 2004 are only partially applicable to the enlarged EU. Thus, there is growing demand for shifting the attention to impact analysis (extensively used in the US for policy building) which would provide decision makers with an insight into the beneficial effects and consequences of policy implementation (Morton, 2009). Although this shift is necessary the impact assessment studies tend to be biased and have high error rates. For example, the impact assessment of the CP spending

2007-2013 elaborated by the EC in 2010 is overly optimistic about policy results and especially about the investment in human capital.

### **3. FACTORS THAT INFLUENCE THE EFFICIENCY AND EFFECTIVENESS OF THE CP SPENDING**

As the CP is a redistributive instrument institutions are the core of the process. An elaborate system of institutions has been built to assure the correct spending of funds, according to the CP principles and objectives. This pyramid shaped system has been the subject of many debates and has been often blamed for the mismanaging of structural funds. The vast majority of criticism has been received by the national Management Authorities and the regional Intermediary Bodies, Mediterranean countries being cited as examples of how not to spend structural funds (SF).

An often cited study on this topic belongs to Ederveen et al. (2006). Inspired by an econometric model established to evaluate the impact of development aid the researcher set out to identify the factors that influence the results attained by the spending of structural funds in the EU15. The conclusions found were surprising: *only member states with solid institutions, low levels of corruption and high degree of openness benefit from the spending of structural funds* while states with high corruption and weak institutions will not only have reduced results but may even suffer real losses. Thus, states such as Greece, Italy, Spain and Portugal have little in terms of GDP growth to gain from an increase in structural funds spending.

This situation is further confirmed by the acute financial difficulties faced by three of these countries after the outbreak of the financial crisis.

More so, extended to candidate countries (at that moment) Romania was at the top of the list of states to suffer losses due to corruption.

The results are confirmed by further studies into the chronic under-development and lagging behind of certain regions. A low degree of institutional development, also referred to as institutional sclerosis, manifested through corruption, political clientelism, local elitism act as inhibitors of innovation and growth and pushes towards a vicious circle of low-development. This is even more obvious in Romania and Bulgaria where corruption levels are the highest in the EU, legislating activity is done at a furious pace, the justice system is seen as flawed and institutions involved in the spending of European Funds are politically influenced, slow and inefficient. Although institutional building is seen as the solution there is a lack of studies and models that would illustrate how this can be put into place (Farole et al., 2009). Methods, such as funding of administrative consolidation by the EC through structural funds, are costly and not effective,

absorption rates on this Operational Plan being at very low levels and results being even more modest.

The de facto situation of the cohesion trends within the EU is illustrated mainly by the studies and reports published by the EC such as the Cohesion Reports. These studies attribute significant contribution to the CP in the stimulation of growth in underdeveloped regions and highlight a reduction in disparities between member states, albeit at higher rates in the 1990's and lower rates up to 2006 (Bachtler și Gorzelack. 2007). After 2007 there is no clear trend, countries and regions being affected by the financial and economic crisis in various degrees depending on the local background.

At the national level the disparities have shrunk with a low but significant 2% annually but not the same can be said for the regional level where differences have been constantly growing.

Taking into consideration the distance from the technological barrier Farole et al. (2009) reveal that the western and northern European metropolis are the closest to the technological barrier and concentrate innovation while peripheral regions drift further away from technological barrier leading to divergence and enhancement of disparities. In the New Member States (NMS), where corruption, institutional development and openness are still problematic this trend is even stronger, leading to widening centre- periphery disparities. This is a clear case of the CP coming short on results on territorial and economic cohesion, both in an intra-state perspective as well as a global east-west perspective.

Thus we can conclude that the results of the econometric modelling described above are more than confirmed by the statistical data and corruption, weak institutions and a low degree of openness are major determinants of the efficiency and effectiveness of the CP and SF spending.

#### **4. PERSPECTIVES ON IMPROVING THE EFFECTIVENESS AND EFFICIENCY OF THE CP**

Two main types of improvements can be distinguished:

1. Strategic adaptation and adjusting of priorities
2. Improving the effectiveness and efficiency of the SP spending process

Due to the extremely varied characteristics of European regions there is a need to elaborate instruments suited for specific local needs. Taking into account the economic geography of Europe and the distance to the technological barrier a number of intervention types (Farole et al., 2009):

- Promoting growth in the EU by means of supporting innovation in metropolitan areas
- Disseminating and spreading of innovation and technological progress

- Promoting innovation outside the North-Western European metropolis
- Reduction of underdevelopment by promoting technological transfer and institutional reform
- Approaching equity for regions with low potential but taking into account the costs for global growth

This is a very liberal perspective on the CP but has come forward in a moment when results seem to be lagging far behind the goals set and the costs bared. This perspective, although only partially embraced by the EC, seems to be one of the directions to follow in the next programming periods.

An other subject of intense debate is the optimum investment mix: the right amount of funds for infrastructure, business consolidation and human resources development. Priorities have changed and infrastructure is no longer the main are for investment as was the case for the Mediterranean states. Infrastructure consolidation continues to play a crucial role is promoting growth in the Central and Eastern European Countries, as the low level of development constitutes a large barrier in the face of development. But, in order to promote long term sustainable growth, there is a need for a coherent long term strategy: after infrastructure is no longer a growth prohibiting factor the attention should shift to human resource development, innovation and technological transfer (Bachtler și Gorzelack, 2007).

Although this perspective is shared by most experts, the priorities seem to be upside down in the case of EU's newest and poorest members, as infrastructure development funds (especially in the transport sector where it is most needed) have very low absorption rates (below 5%).

Thus, there is a consensus on the need to relieve the CP of its equalising role and direct it to promoting economic growth, social and territorial cohesion. This view is also embraced by the EC in Fifth Report on Economic, Social and Territorial Cohesion. Promoting creativity and innovation are seen as priorities for the CP in achieving sustainable and inclusive growth for the EU.

As far as improving the SF spending processes there are three are two priorities that come in mind: institutional building and elimination of corruption.

A priority generally agreed upon for the increase of efficiency and effectiveness of the CP is institutional consolidation: in the absence of a strong administrative system funds will be dispersed in directions that bring no contribution to attaining the goals set for the CP and also create elites, dependence and deflect resources to wrong directions (Bachtler și Gorzelack, 2007), (Ederveen et al., 2006). Also, weak institutions cause delays in absorption of funds and ultimately lead to low absorption rates with severe impact on the results attained in the regions affected.

Corruption is also on the front-line discussions prompted by the debt-crisis that shook the EU in the last two years. The effects corruption has on the implementation of European funding was most obvious in the Mediterranean states but with the expansion to the East the cases of miss usage of European funds have been dramatically rising. There is a growing concern for the proper use of European funding and implicitly elimination of corruption from the institutions supervising the implementation process and blocking attempts from beneficiaries who try misusing grants received.

All o these changes would bring greater efficiency and effectiveness to the CP but are hard to implement from Brussels alone. The vast majority of changes regarding institutions and corruption are at a national and regional level where the EC has more than limited attributes and depends on the willingness of national governments to implement reform. As this is not always present, it is going to be a lengthy process with gradual and slow change that is going to affect that the CP is able to achieve.

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