Meral (IBRAIM) KAGITCI
The Bucharest University of Economic Studies (ASE)
Mirela Elena NICHITA
The Bucharest University of Economic Studies (ASE)
Marcel VULPOI
The Bucharest University of Economic Studies (ASE)

# COMPARATIVE ANALYSIS OF THE COHESION POLICY FOR THE PERIODS 2007-2013 AND 2014-2020

Case study

**Keywords**
Cohesion policy
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**JEL Classification**
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**Abstract**

*The present article underlines the idea that tasking projects with economic potential fiscal tools will supply help for investments by the way of lending guarantees, equity and other risk-bearing which includes policy based on guarantees for European Social Funds. Except for the shown advantages of recycle funds over the long-terms, fiscal tools provide mobilization to investment in order to have access to market in line with Europe 2020 and unity priorities. More than that, those tools help a lot of spurs to have a good performance, which includes good fiscal discipline at the level of supported projects. In the view of the fiscal situation and the increasing poorness of social resources, fiscal tools are willing to have stronger role in unity policy within 2014-2020 programming period.*

## Introduction

The successful operation of the regional increasing – or cohesion – policy of the European Union has a strategic importance from the point of view of the entire integration process. The strength of economic, social and territorial cohesion and decreasing disparities between Member States and regions are not only one of the principal priorities of the integration, but at the same time these are justified expectations of the people living in the Member States of the Union.

A bigger number of jobs for all the regions and cities of the European Union will bring more developments. After two successive growths in 2004 and 2007, it was a hard target to do the European Union more coherent. The developments for that period were to realize €308 billion (in 2004 prices) to help regional development agenda and to encourage job creation. 82% of this total quantity is based on the „convergence" objective sent to the poorest Member States and regions. About 16% of the structural funds are based on helping innovation, sustainable development, good accessibility and training project under the Regional Competitiveness and Employment target. The rest of 2,5% are used for cross-border, transnational and interregional collaboration under the „European Territorial Cooperation" task. Many finished tasks have been agreed upon the following targets of the development and employments agendas- the task is almost 605 in the case of „Convergence" task and almost 75%, in the case of „regional competiveness and employment" tasks economical tools represent a resort-efficient way of launched unity policy resources

Economical investments have been turned to account for bringing investments for Structural Funds since 1994-1999 programming period. Their relative matter has increased during programming period 2007-2013 and they can present, nowadays, 5% of European Regional Development Fund resources. In the view of the fiscal situation and the increasing poorness of social resources, fiscal tools are to have a stronger role in unity policy in 2014-2020 programming period.

The aim of this problem is the way in which the European Commission tries to promote the expansion and strength of the financial instruments in the next programming period as a more efficiently way and another alternative to complement traditional grant-based financing, based on the accomplishment experiences with financial ads in the current days and past cohesion policy cycles and on the important reflection which is attached to them in the multiannual financial scenario. The main purpose of this article is to speed the process of development, the territorial dimension of the Europe 2020 strategy and other EU and national policies. In spite of the fact that a consensus on the matter of territorial size for development, policy processes in the land of territorial increasing are not enough connected to those in other lands. About twenty years of inter governmental collaboration and territorial growth between EU Member States has only consolidated multiannual programming in relation to the EU progress policy. No dutiful trial has been succeeded to a more efficient connection between these two steps together in order to examine their synergies and thus to bypass to pay the big price of non-coordination. A big number of reasons stand behind this unintentional but long brake of policies at the EU level.

The European process of financial integration did not engender a uniform allotment of benefits under the conditions that member countries had particular initial levels of increasing. The adoption of an EU cohesion policy was necessary to support countries/regions with openings in rising. Its objective is to slow down inequality between EU regions, through a better use of their respective economical and human potentials, in order to receive a real convergence. This process has on one hand internal (as a result of internal policy being promoted, in accordance with common policies) and on other hand, Community's (through cohesion policy) sources. Both of them show a structural transformation of economy, contributing through it to the stimulation of the financial evolution process and to the faster rising of discrepancies in returns. In the European model, cohesion policy is based on the communitarian instrument through which the process of economic convergence is supported. This results in both a better accumulation of production factors and a progress of their productivity (as in a higher rate of spore), and an economic modernization of the benefiting countries (regions).The allocation of structural funds is meant to unblock the engine of development in regions that benefit them. However, lacking some absorbing effects at a regional level, development disparities can persist. Thus, it is explained why discrepancies between EU regions have maintained relatively constant, while those from within the Member States have even increased. Regions with a reduced level of development within the EU-15 are characterized by a reduced growth in the total productivity of their production factors (of the efficiency in their utilization, lacking an improved education and technology), through the existence of a high unemployment rate and continued relatively high numbers in agriculture. An additional challenge for internal cohesion of the EU has been the magnification program, which has lead to a rising in receipt inequality within the communitarian space. Thus, the difference between the development level of 10% of the population in the most thriving regions and the same percentage of inhabitants of the poorest regions has grown more than 2 times, compared to the existing situation in the European Union with 15 Member States. For the period 2007-2013, EU's cohesion policy was reformed in order to better obey with the objectives set at Lisbon and Göteborg (competitive economy supposed on knowledge, technological research and rise, sustainable increase, employment). The analysis of Community's directions suggests that fiscal assistance has positive effects on economic growth at a regional and national level. Cohesion Policy influences all of its sources, contributing to the increase of capital amassment (through the birth of new firms), of the degree of employment (in concordance with the objectives set by the Lisbon Strategy) and the efficiency with which the production factors are used (education, innovation, reduction of transaction costs). The estimates of the European Commission underline a growth in national GDP by 10% as a result of the allocation of financial resources towards the less developed countries of the EU, between the years 2007 and 2013.Beyond the immediate effects of aggregate demand (income rises in the beneficiary regions), decisive become those on aggregate supply, on a long time. Thus, the modernization of the infrastructure, the rise of education levels as well as subsidies of research and development activities permit the increase of potential growth in of the economy (as in potential GDP). In these conditions, shock suction on the demand or the structural sides will be faster in the countries/regions that benefit from structural and cohesion funds. It results that from cohesion policy; the convergence of business cycles of an economy within the euro zone can rise, consequently increasing the benefits of adopting a single currency.

**Literature review**

At the heart of institutional and governance debates on EU Cohesion policy is the argument that Structural Funds have developed the profile and influence of regional and local actors in economic development. As Benz and Eberlein note, since the landmark reforms of the Structural Funds in 1988, the Funds have been in a wide way studied as a paradigm case of multi-level governance structures in the EU15 and of adjustment of regional structures (Based on the precession and post accession experience of the new Member States, it has been suggested that EU Cohesion policy will similarly lead to changes in territorial relations within Central and Eastern European countries. It is anticipated that Structural and Cohesion Funds will promote the greater involvement of regional-level institutions in economic development, with the potential for a lot of changes in regional governance structures and policy practice.

**Tendencies of convergence and disparities among the EU Member States and regions**

In the last 10 years a process of leveling out between the less developed Member States has been taking place, as can be seen in the three countries (Greece, Portugal and Spain) formerly the least developed, and in Ireland, though at a pace varying from country to country. However, the fail of European integration showed a mixed picture: both convergence and divergence occur over time and at the same time. The experience shows that the less developed Member States' performance converges in the long run, but in several cases the poorer regions were able to reach a lower speed of fiscal increase. Concerning the experience of the old less developed Members, in 1960 the four countries had a low level of GDP per capita in purchasing power parities: Portugal had 40%, Greece 43%, Spain 57% and Ireland 61% to the EU15 average. According to the latest official statistical publications, Portugal achieved 80%, Greece 90%, Spain 100% and Ireland 128% of the EU27 average level of development (Eurostat, 2011b).

According to the last data for 2010, 2009 and 2008, published by the statistical office of the European Union, the dispersion in GDP per capita across the EU Member States remained quite remarkable. As in the previous years, Luxembourg has the biggest GDP per capita among all the 27 Member States and it is more than two and a half times above the EU27 average, and about 6 times greater than Bulgaria, which is the poorest member state as measured by this indicator. The Netherlands comes out on the second place among the Member States, at 33 per cent above the EU average. Ireland maintains its position among the richest EU Member States, but there is a clear downward trend between 2008 and 2010. This can be explained in first line by the development of its nominal GDP, which decreased by more than 13 per cent in this period. Other Member States with GDP per capita of 20 per cent or more above the EU level in 2010 were Denmark, Austria and Sweden. Belgium and Germany are at about the same level, followed by Finland and the United Kingdom, while France comes out well ahead of Italy and Spain which have been at similar levels for several years. Cyprus, with a GDP per capita marginally below the EU average in 2010, remained ahead of Greece, which has suffered from the deep economic crisis. Slovenia, Malta, Portugal and the Czech Republic are all clustered around 20 per cent below the EU average, well ahead of Slovakia, Hungary, Estonia and Poland which are around 40 per cent below the EU average. Poland shows a clear increase in its relative position, while Lithuania and Latvia, on the other hand, have shown a decrease in GDP per capita between 2008 and 2010. Romania and Bulgaria have GDP per capita levels just below 50 per cent of the EU average.

The regions with the highest per capita GDP are in southern Germany, the south of the UK, northern Italy and Belgium, Luxembourg, the Netherlands, Austria, Ireland and Scandinavia. The regions around certain capitals, Madrid, Paris, Prague and Bratislava, also fall into this category. The weaker regions are concentrated in the southern, south-western and south-eastern periphery of the

EU, in eastern Germany and the new Member States. Nowadays, per capita GDP ranges from 28 % of the EU27 average (6 500 PPS) in Severozapaden in Bulgaria to 343 % (85 800 PPS) in the capital region of Inner London in the UK. The factor between the two ends of the distribution is therefore 13.2:1 (Eurostat, 2011).

A detailed analysis of trends within countries between 2000 and 2008 shows that the fiscal increase in regions within a country can be almost as diverse as the one between regions in different countries (Eurostat, 2011). The largest differences were seen in the Netherlands, Romania, Slovakia and the United Kingdom, where there were performance differences of more than 40 percentage points relative to the EU average for the per capita GDP of the fastest- and slowest-growing regions. The countries with the small differences among regions were Ireland, Slovenia, Denmark and Finland, with regional performance differences of between 2 and 9 percentage points. In both new Member States and EU15 countries, significantly diverging regional trends mainly resulted from dynamic growth in capital regions. However, as the values for Slovenia (6 percentage points) and Poland (14 percentage points) show, the data available doesn`t confirm the assumption that major regional growth disparities are a typical characteristic of new Member States. The data also shows that the regions with the lowest levels of per capita GDP recorded a significant progress. Between 2000 and 2008, Nord-East and South-Muntenia (both in Romania) caught up by 11 and 18 percentage points and Yuzhen tsentralen (Bulgaria) by 9 percentage points compared to the EU27 average (European Commision, 2004, 2007).

*Table 1* shows clear progress in economic convergence between regions over the eight-year period 2000–08: the proportion of the population living in regions where per capita GDP is less than 75 % of the EU average fell from 27.2 % to 23.8 %. At the same time, the proportion of the population living in regions where this value is greater than 125 % fell from 24.6 % to 19.6 %. These shifts at the top and bottom ends of the distribution meant that the proportion of the population in the midrange (per capita GDP of 75–125 %) increased sharply from 48.2 % to 56.6 %. This corresponds to an increase of around 50 million inhabitants. A more detailed analysis shows that, in addition, many regions with a GDP of less than 50 % of the EU average have made quite substantial progress. Between 2000 and 2008, the population living in these regions fell by almost a third, from 14 % to 8.7 %, i.e. by 25 million. Moreover, an examination of the 10 weakest regions as at 2000, where 4.8 % of the population lived at that time, shows that this group made strong progress. Per capita GDP in these regions rose from 22.6 % to 36.4 % of the EU average between 2000 and 2008.

A comparison of the extreme values between 2000 and 2008, however, shows that trends in the EU15 have been quite different from those in new Member States. While the gap between the regional extreme values in the new Member States is growing in most cases, it is shrinking in one out of every two EU15 countries. The catch-up process in new Member States was of the order of 1.7 percentage points per year between 2000 and 2008, compared to the EU average. Per capita GDP (in PPS) in these 12 Member States thus rose from 45 % of the EU average in 2000 to almost 59 % in 2008. In 2008, performance was particularly strong, with 2.7 percentage points. This can be explained partly by the fact that the economic and financial crisis struck first in the EU15 Member States, some of which, like Ireland, Italy and Denmark, were already in recession in 2008. On the other hand, among new Member States, only Estonia and Latvia already had negative volume growth rates in 2008, and the full effects of the crisis became apparent only in 2009. The initial data available on certain Member States for 2009 and 2010 would suggest that the recession affected rural regions and areas lagging behind in terms of economic development less severely than regions with a high per-inhabitant GDP, or with a high level of dependence on exports or tourism. This means that it can be expected that disparities didn’t start to increase.

It should be emphasized that EU regional policy support is, of course, only part of the explanation for these processes, several other factors (increasing openness to the world economy, national economic policies and the structural adaptation of the national economies) have also contributed to the catching up processes. At the same time, as a result of strengthening the EU-level regional policy since the 1990s, subsidies from the EU play a decisive role in the convergence of economic performance.

**European Council adopted cohesion policy package for 2014-2020**

The Council today adopted the cohesion policy package for 2014-2020, marking the end of two and a half years of negotiations. The purpose of cohesion policy is to slow down the differences between the levels of progress of the EU's various regions by promoting financial increase, job creation and competitiveness. Cohesion policy side by side contributes to the realization of the Europe 2020 strategy targets of bright, sustainable and inclusive rise. The EU support for cohesion policy amounts to EUR 325.15 billion (in 2011 prices) for the next seven years, in line with the EU's multiannual financial skeleton (MFF) for 2014-2020 adopted by the Council on 2 December. This is around one third of the expenditure ceiling of the next MFF. The six regulations adopted today define the conditions of eligibility and the criteria for the allocation of the EU cohesion policy support European Commission, *„Financial Instruments in Cohesion Policy 2014-2020”*..

Under the preventive arm of the macro-economic conditionality the Commission may ask amendments to a member state's partnership agreement in order to address for instance macroeconomic disequilibrium. Where a member state fails to respond well to such request, the Commission may propose the Council to suspend a part or all of the payments for the programs concerned. The proposed suggestion requires the support of a qualified majority of the Council to take effect. Under the qualification arm, the Commission must propose to suspend part or all commitments or payments when a member state fails to take corrective action within the economic governance procedures (e.g. the excessive deficit procedure and the macroeconomic imbalances procedure). An offer to stop commitments is deemed adopted; if not it is rejected by the Council with qualified majority. A proposal to reject payments requires the support of a qualified majority of the Council. Elevates of suspended commitments is decided by the Commission, and the lifting of suspended payments by the Council.

The European Parliament is involved in the application of the macro-economic conditionality through a structured dialogue. In making a proposal for a hanging of commitments or payments, the Commission has to give due consideration to any opinion expressed within this dialogue. In addition, several safeguards have been introduced in order to mitigate any unintended effects. This means for instance the exclusion of too frequent reprogramming in order to avoid a break of programs and the reduction of suspended amount of commitments depending on unemployment installment, poorness rate and contraction of GDP. The cohesion policy contributes with EUR 3.0 billion from the ESF to the EUR 6.0 billion of the youth employment initiative (YEI) which will bring benefits to young unemployed persons aged 15-24 years living in regions with levels of youth unemployment above 25%. Member States with eligible regions may decide to expand the task group to unemployed persons aged 15-30 years.

Reinforcing territorial cohesion is also one important component of the reform. New instruments such as the community-led local development and the integrated territorial investments have been introduced to bring territorial strategies and to protect the connection between the territorial dimension and the thematic objectives selected in the partnership agreements and programs. The strong focus on results has been escorted by further simplification of the policy such as the harmonization of eligibility rules and management and control systems between different EU funds, the introduction of simplified repayment rules and the possibility to tackle funds on the basis of common action plans.

**Legislative proposals for EU Cohesion Policy: 2014-2020**

The Commission proposed a number of important changes to the way cohesion policy is designed and implemented, namely:

- concentrating on the Europe 2020 Strategy's priorities of smart, sustainable and inclusive increase;
- trying to reward the performances;
- supporting integrated programming;
- focusing on results – monitoring progress towards agreed objectives;
- reinforcing territorial cohesion; and
- simplifying delivery.

This follows the adoption by the Commission in June 2011 of a proposal for the next multi-annual financial framework for the same period (1): a budget for delivering the Europe 2020 Strategy. In its proposal, the Commission decided that cohesion policy should stay an essential element of the next economical package and underlined its pivotal role in delivering the Europe 2020 Strategy.

The total proposed budget for the period 2014-2020 will be EUR 376 billion, including funding for the new Connecting Europe Facility, which is designed to enhance cross-border projects in energy, transport and information technology.

The legislative architecture for cohesion policy includes:

- An overarching regulation setting out common objectives for the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development(EAFRD), the European Maritime and Fisheries Fund (EMFF), and further general rules for the ERDF, ESF and Cohesion Fund;
- Three specific targets for the ERDF, the ESF and the Cohesion Fund; and
- Two regulations on the European territorial connection tasks and the European Grouping of Territorial

**The Cohesion Fund**

The Cohesion Fund helps Member States with a GNI per inhabitant of less than 90 % of the EU-27 average to invest in TEN-T transport networks and the environment.

**Supporting thematic concentration**

In the field of environment, the Cohesion Fund will support investment in climate change adaptation and risk prevention, as well as investment in the water and waste sectors and the urban environment. In line with the Commission's proposals on the Multi-Annual Financial Framework, investment in energy would also be eligible for support, provided it has positive environmental benefits. Investment in energy efficiency and renewable energy are therefore also supported. In the field of transport, in addition to the TEn-T network, the Cohesion Fund will contribute to investments in low-carbon transport systems and urban transport.

**European Territorial Cooperation**

European Territorial Cooperation is a target of cohesion policy and shows a framework for the exchanges of experience between national, regional and local actors from different Member States, as well as joint action to find common solutions to known problems. This is all the more important given that the points faced by Member States and regions rising cut across national/regional boundaries and require joint, cooperative action at the appropriate territorial level. European Territorial Cooperation can thus also give an important contribution to fostering the new Lisbon Treaty particular of territorial cohesion.

The objective sets out the financial resources available for each strand and the criteria for their allocation to Member States. They will be allocated as follows:

- 73.24% for cross-border cooperation;
- 20.78% for transnational cooperation;
- 5.98% for interregional cooperation.

This covers the continuation of the way for the transfer of resources for cooperation targets at the external borders of the Union, to be supported under the European neighborhood and Partnership Instrument (EnPI) and the instrument for Pre-Accession Assistance. Collaborations on programs under the European Territorial Cooperation tasks and programs financed under external instruments shall be promoted.

**Conclusions**

The cohesion transfers should be spent on those factors which have the greatest contribution to the improvement of growing prospects and competitiveness in the given regions. Theories on regional development have controversial conclusions about the long-term formation of development disparities. However, it has become that successful increasing policies are based on endogenous factors, innovation and well-functioning institutions. After examining theoretical considerations and regional disparities, the study analyses the impacts of EU regional policy and evaluates the main elements of the proposed regulatory frameworks for the period 2014-2020.

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***Table 1***

**Convergence among regions: Shares of population in economically stronger and weaker regions (EU27=100)**

| Percentage of population in regions with a per capita GDP (in PPS) | 2000 | 2008 |
|---|---|---|
| > 125% | 24.6 | 19.6 |
| 100% to 125% | 27.7 | 30.0 |
| 75% to 100% | 20.5 | 26.6 |
| < 75% | 27.2 | 23.8 |
| of which: < 50% | 14.0 | 8.7 |

Source: Eurostat, 2011