The Reform of the Cohesion Policy - What does the Proposal for the Next Multi-Annual Financial Framework 2014-2020 Bring?

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Abstract

Since 1988 the Cohesion Policy (CP) has become one of the most important and most debated EU policies. The recently proposed Regulation for the next multi-annual financial framework for the period 2014-2020 caused controversy regarding its basic proposals concerning simplification of policy delivery, use of conditionality and its results-focused orientation. The article delivers an overview of the current process of reform of the CP which is focused on encouraging economic growth and competitiveness of the EU and its Member States, the reduction of the existing inequalities between regions as well as the promotion of harmonious development. Having in mind the proposed measures and other key strategic documents such as the Europe 2020 Strategy and the Fifth Cohesion Report, the article tries to explain why certain objectives and proposals are relevant for the Cohesion Policy and its future, and how they can affect national, regional and local actors in the coming period.

Keywords: Cohesion Policy, strategic planning, policy reform, Europe 2020 Strategy

1. Introduction – Cohesion Policy: definition and legal setting

The European Cohesion Policy is one of the most important as well as one of the most debated European policies. It is the main European Union (EU) "tool" for addressing disparities between regions, promoting equal opportunities for all individuals and attaining harmonious development[1]. It additionally serves as a method to promote economic, territorial and social cohesion. In the current annual-financial Framework 2007-2013, the projected value of the Cohesion Policy overall budget stands at €347 billion, out of €864.3 billion available through the EU Budget. This financial structure confirms the importance of the Cohesion Policy in achieving balance in all governed areas, and supporting facilitation of an easier access to the advantages that the EU citizens enjoy through the common market of goods, capital, labour and services.

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The Cohesion Policy, as a redistributive policy, is linked to the concept of solidarity between the Member States and regions, explicitly formulated in the 1986 Single European Act and reiterated in the subsequent reforms of the Basic treaties as one of the fundamental principles of the EU[2]. Since the early days of the European Community, the objective of reducing disparities between the development levels of the EU regions has been recognized as an important factor for further common development. As specified earlier, this goal was formally introduced with the Single European Act, when the economic and social Cohesion Policy was included as a specific objective, along with the objective of achieving the Single Market. This policy area was formally institutionalized with the 1992 Treaty of Maastricht. It took another 5 years for the concept of territorial cohesion to be recognized on the equal basis as the economic and social cohesion. With the establishment of the Committee of the Regions in 1993, the regional-territorial representation was given a big "push in the back"[3]. A formal reference to the territorial cohesion was made in the 1997 Treaty of Amsterdam, and as a principle, it was recently entirely included in the consolidated version of the 2009 Treaty of Lisbon. Territorial cohesion is focused on the harmonious and sustainable development of all territorial units by supporting the buildup of their unique characteristics and resources; with emphasis on an endogenous, bottom-up approach to spatial development, known as a "place based development policy"[4]. Currently, the Cohesion Policy, as regulated by the Treaty of Functioning of the EU (TFEU) (Articles 174-178), places a special focus on the under-developed regions, especially rural areas that are affected by the negative effects of the secondary (industrial) to tertiary transition, as well as regions suffering from permanent negative effects of low population density. Such focus-oriented direction is necessary in order to promote the fundamental idea behind the Cohesion Policy – the harmonious development of EU regions.

Following a formal incorporation of the Cohesion Policy into the Founding Treaties, the EU Council and Commission produced a number of documents with the specific purpose of further developing the Policy, focusing on the Structural and Cohesion Funds, programs eligible for funding application, criteria for entry into the funding, monitoring and financial management, and other. The European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund support the projects financed by the Cohesion Policy. The focus is placed on strengthening growth and development, as well as promoting competitiveness, with a parallel effort to encourage the creation of new and better suited jobs for EU citizens.

2. Historical overview of the Cohesion Policy and the introduction of the latest reform

Within the multi-annual financial Framework for the period 2007-2013, 35.7% of the EU budget is set-aside for the Cohesion Policy. Through the Structural Funds and the Cohesion Fund, the EU has earmarked €347 billion for programs that increase competitiveness and employment, fostering the balanced development of rural and urban areas. Compared to 1975, when the Structural Funds received less than 5% of the Budget, a visible progress is noted. Today, besides the Rural Policy, the Cohesion Policy stands as one of the most important EU policies when assessed through the amount of allocations as derived from the Budget. However, regardless of the wide range of investments and persistent focus on economic and social development, the EU is still characterized by great economic inequalities especially visible as an aftermath of the economic crisis. It is therefore understandable that with each new financial perspective, new proposals for reform are presented with a general aim to eliminate or at least reduce the shortcomings visible in the current financial perspective. Prior to focusing on the upcoming period and the proposed reform, it is important to note the key changes that have marked the Cohesion Policy since its initial formulation.

The accession of Greece, Spain and Portugal pointed out the need for establishing a common regional policy, an effort resulting in the creation of the European Development Fund in 1975. The year that marked the "beginning" of the EU Cohesion Policy was 1988, when the Council decided to integrate the Structural Funds into the Cohesion Policy[5]. This reform introduced a number of main cohesion principles, such as the concentration on a limited number of objectives with the focus on the poorest regions; multi-annual programming; strategic orientation on investments and the involvement of national, sub-national and EU actors, including the social partners and nongovernmental organizations. Furthermore, the reform established five common objectives (that remained more or less unchanged in the upcoming period): the development and structural adjustment of regions whose development is "lagging" behind; the conversion of regions that have been seriously affected by industrial decline; the campaign to end or curtail long-term unemployment; the facilitation of the occupational integration of young people; the acceleration of the adjustment of agricultural structures and rural areas.

The 1989 introduction of the Cohesion Policy enabled further regional development through the Commission's acts. The first set of norms came within the so-called "Delors I" package. The Package increased the allocation of the Budget to the Structural Funds in the amount of 25% and established a set of principles concerning the operations management, setting of goals and quality standards. The Maastricht Treaty contributed to the creation of a Cohesion Fund, and introduced a formal obligation of the Commission to deliver a progress report on the economic and social cohesion every three years to the Council and the Parliament[6]. Most importantly, cohesion became one of the main objectives of the EU. This resulted in the Commission's proposal for a higher level of funding, within the so-called "Delors II" package. In the following 1993 reform of the Structural Funds, financial allocation, when compared to the previous period, was doubled, with one third of the Budget being allocated to the Regional Policy. The Treaty of Amsterdam highlighted the need to "combat" unemployment and to further focus on the assistance to development of the least favoured regions.

During the latest EU enlargement, the Structural Funds witnessed a new set of reforms, focusing on an easier model of operation. Having in mind the new 12 Member States, it was necessary to adopt new guidelines concerning the division of the funds between the old and the new Members. Thus, the financial Framework for 2000-2006 allocated €213 billion to the old Members, and €22 to the new[7].

Asare-Donkoh warns that at the end of the 2000-2006 period the internal and global challenges became evident, i.e. requiring new legislative provisions and thus paving the way for the introduction of the Convergence Policy[8]. The previously mentioned financial Framework for the period 2007-2013 focuses on the poorest Member States and regions, as visible through the shift of 81.5% of the total funds reserved for such purposes[9]. Most of the envisaged programs were already agreed upon in 2007 (a clear step forward in the simplification of the Funds' rules and expectations), with focus being placed on environmental, research and innovation policies, and projects set to combat the negative effects of climate change.

Having in mind the evaluation of the Cohesion Policy's implementation, a number of assessments concerning the effectiveness of the implementation of programs financed by the structural instruments were conducted. The conclusions reached have had a direct impact on the further design of the architecture of the Cohesion Policy. For example, the results from the *ex-post* evaluation of the Cohesion Policy programs co-financed by the ERDF in the period 2000-2006 clearly indicate a number of positive effects of the Structural Funds' implementation. According to the evaluation, the Cohesion Policy helped to trigger social cohesion, improve territorial cohesion, and contribute to positive institutional changes. It was also noted that increased funding fostered growth, which in turn resulted in the reduction of regional disparities taking into consideration the comparison of GDP *per capita*, and helped strengthening the potential for future growth[10]. Accordingly, a considerable progress was made through the establishment of monitoring and evaluation systems concerning the programs and their progress. Additionally, according to the Fifth Report on Economic, Social and Territorial Cohesion[11], the Cohesion Policy has created approximately 1 million jobs in enterprises established within the EU, around 10 million people *per annum* were (re)qualified (a strong focus being placed on young people, the low-skilled and the long-term unemployed), and more than 23 million people were connected to the supply of clean drinking water through the ERDF and the Cohesion Fund support in the period 2000-2006[12]. Furthermore, the Report highlighted the success of the Cohesion Policy in the reduction of economic, social, and territorial disparities, as has been particularly visible through the benefit that all regions have experienced during the implementation of the Cohesion Policy (direct and indirect trade benefits, and support given regarding the EU-wide priorities such as environmental protection, research and innovation[13]). The Report did however indicate that the Policy was facing serious difficulties caused by the economic crisis. Molle affirms that the stronger concentration of funding programs essential for economic modernization (research and development, innovation, entrepreneurship, human capital and information and communication technologies) in the current financial period led to the formulation of a new strategic approach further integrating parallel growth at all EU levels[14].

However, a lot remains to be done, especially concerning the effort to develop synergies between the Cohesion Policy and other European policies. This effort has proven to be particularly problematic, as the dispersion of funding of a large number of sectoral policies in some cases produced no positive effects. Another problem was the long duration of the infrastructure projects, some of which have lasted longer than planned due to the more or less complex bureaucratic procedures. According to Bachtler and Gorzelak, the effect of the Cohesion Policy is not only visible through its influence on GDP and employment, but also through the added value received through the means of the Cohesion Policy's design and implementation[15]. The Commission's evaluation of the Cohesion Policy points out to a number of good examples where the added value benefits would not be achievable without the assistance of the EU budget. The evaluation, however, goes on to suggest that the dispersion and lack of prioritization are still visible.

One of the answers to global challenges and to the current economic problems is the adoption of a Communication on Europe 2020 Strategy in June 2010[16]. The Commission is proposing five targets that will drive the process and be incorporated into national strategies in order to promote employment, research and innovation, efforts to combat the negative effects of climate change, clean energy development, education and methods aimed to diminish poverty. In order to meet the set targets, it is necessary to achieve a harmonized action at all EU levels - national, regional and local - to be able to deliver a smart, sustainable and inclusive growth. As Agh stated, EU 2020 placed the Cohesion Policy in the "*... center of the EU policy universe*"[17]. According to the same author, the Fifth Report highlights that the Cohesion Policy has been harmonized with the objectives of the Europe 2020 strategy, and Agh assumes that this link will become even stronger in the future[18]. A strong link can be noticed between the Europe 2020 Strategy and the Cohesion Policy, since both policies are concentrated on efforts to provide a continuation of support to the less developed regions of the EU (in order to "catch up" with the more developed ones), as well as to aid in the coordination between various EU policies. As Leonardi stated[19], there are numerous areas of overlap in the primary objectives: Europe 2020 is focused on the stimulation of the economy through faster growth, while the Cohesion Policy is concerned with the restructuring of underdeveloped areas so that they can become more competitive, thus enhancing the prospects for growth above the EU average. Additionally, the goal of providing new employment opportunities is present in both policies. Bearing in mind the above observed interconnection between the two, the conclusion can be made that the future Cohesion Policy will be focused on the implementation of the Europe 2020 goals.

Referring once again to the above mentioned Fifth Report, Hahn stated that the Report had highlighted the need for a better coordination between various EU policies, national policies and the Cohesion Policy in order to support regions in unleashing their potential and capitalizing on their assets[20]. Furthermore, the Report has presented some concrete ideas concerning the reform of the Cohesion Policy. Main elements of the Cohesion Policy reform for the period *post* 2013, such as the concentration on a small number of priorities, stronger incentives and conditionalities, result-oriented delivery system and the use of new financial instruments, are discussed in detail further in the text. Mccann[21] is of the opinion that the Cohesion Policy will play a critical role in the success of the Europe 2020 Strategy because it provides the perfect platform for an integrated approach to economic development. The Report examined possibilities of making the Policy more effective and its impact more profound (so as to achieve a greater added value), strengthening the governance of the Policy and the involvement of stakeholders, and simplifying its implementation[22]. Whether the legislative Proposals for EU Cohesion Policy 2014-2020 addresses these and similar issues is examined further in the text.

The Cohesion Policy is an important expression of solidarity with the poor and "weak" regions of the EU, but it aspires to be much more than just that. One of the greatest achievements of the EU is observed through its capacity to raise the living standards of all EU citizens. This is accomplished not only through helping poorer Member States and regions to develop and grow, but also through the Single Market integration encompassing all EU parts and areas, rich and poor, big and small. The last enlargement and the accession of 12 new Member States has shown that one of the main motives behind the desire to become a part of the EU was an opportunity for those countries to gain financial benefits through the improvement of their national fiscal programmes[23].

3. The Cohesion Policy *post* 2013 - What can be expected?

The Proposal for the next multi-annual financial Framework 2014-2020 (the Proposal) aspires to contribute to the economic recovery, having in mind the devastating effects of the current crisis as observed in the EU regions. The Proposal was adopted on 29 June 2011, and its main goals focus on the results, simplification of policy delivery, and increased use of conditionality.

Past experiences have shown a number of deficiencies such as, for example, the diversity and fragmentation of rules governing spending programmes. This has resulted in the unnecessary complexity that hampered the implementation and control, placing a heavy burden on all involved actors - the Commission, the Member States and beneficiaries. It is often the case that the potential benefits of the EU programs are not fully realized due to the delaying implementation or increasing error rates. In order to avoid this occurrence in the future, it would be sound to maximize the effectiveness of individual programs through a prior optimization of different instruments and methods involved. This, in turn, requires a clearly set policy, regulation and institutional framework, with clear monitoring and control requirements.

The proposed budget for Regional Policy is €336 billion. If the new Connecting Europe Facility (which is focused on the promotion of Trans-European Networks in the area of transport, energy, information and communication technologies) is taken into account, the overall budget amounts to €376 billion, which is 37% of the future Multi-annual financial Framework. The specified amount corresponds to a reduced allocation when compared to the current period, a shift clearly showing the need of funds management organized in a "wiser" and more efficient way. This in turn requires strong governance and a delivery system that ensures a reduction of bureaucracy.

In the context of the "budget debate", the level of funding is a "bone of contention". For instance, in the earlier discussions of the budget allocation, the Czech Republic and Poland were against drastic cuts in the funding, whereas a number of opinions were stated concerning the question whether the richer regions should continue to be funded[24]. It is, however, important to stress out that the new budget allocation is not intended to introduce a drastic decrease in the available funds, but rather to foster a change in the structure of the budget and reallocate the available funds to other EU policies for investments regarding the EU added value (primarily for the transport and energy sectors).

The accession of new Member States additionally requires a stronger coordination of any policy agenda backed by financial instruments. This is especially important regarding the EU desire to continue the economic development parallel with a sustained social and environmental development[25]. The Commission seeks to maximize the impact of the Cohesion Policy in accomplishing the European priorities, as stated above. The Proposal provides a list of thematic objectives which are in line with the Europe 2020 Strategy: investments in research and innovation; information and communication technologies; competitiveness of small and medium sized enterprises; shift towards a low-carbon economy; climate change adaptation; risk prevention and management; environmental protection and resource efficiency; sustainable transport and a removal of "bottlenecks" in key network infrastructures; employment an support of labour mobility; social inclusion and combating poverty; education, skills and lifelong learning; institutional capacity building and efficient public administration. The question, however, still remains whether these "thematic" objectives are all mandatory or not, and according to what model the funds will be allocated to individual objectives. The strategic approach, as established by the Cohesion Policy, will be further developed through a series of new strategic documents, such as the Common Strategic Framework, the Partnership Contract, and a repository list of the common priority development areas for all Member States. This will additionally allow the Member States to combine ERDF, ESF and Cohesion Fund assets in the so-called "multi-fund" programs, to support their growth plans, improve coordination and foster integrated development[26]. In order to do so, a Member State will be required to sign a contract with the Commission (the so-called Partnership Contract), where the individual commitments and obligations of the contracting parties will be made transparent. This involves an obligation of a Member State to express its needs and priorities in connection to the previously established National Reform programs (a requirement that needs to be fulfilled in order to become eligible to apply for a Partnership Contract) aimed at delivering the Europe 2020 objectives. Such a Contract will contain "*... thematic objectives; investment priorities for each thematic objective; a number of conditionalities which will be pre-requisite to EU funding; targets that the Member States plan to reach by the end of the seven years programme period, as well as performance indicators and milestones*"[27].

3.1. Introduction of conditionality and other novelties in the future financial perspective

In order to ensure the fulfilment of the Partnership Contracts, the Commission is proposing an introduction of conditions which could potentially lead to the suspension of funding. The purpose of introducing conditionality provisions is to ensure that EU funding encourages the Member States to deliver Europe 2020 objectives and targets, but at the same time ensures that such projects will be delivered at the time-frame and conditions as previously agreed upon by the contracting parties. Conditionality will take form of both '*ex ante*' conditions that must be in place before funds are disbursed and '*ex post*' conditions that will make the release of additional funds dependent on actual performance.

Ex ante conditions will be defined in the Partnership Contract at the beginning of the programming period to ensure that the requirements necessary for their effective fulfilment are in place. If the conditions are not met before the commencement of the starting period, the Member State and the Commission will set a new date for their realization. If, again, the conditions are not met by the additional date, the Commission will have the power to decide whether and under what circumstances the funding will continue. Such a regulation is based on the experience derived through the past projects' funding, where different obstacles occurring from the institutional and regulatory frameworks prevented the effectiveness of individual investments. It is important to point out that the conditionality, as such, has already been present in the Cohesion Policy through different mechanisms adopted in order to foster the effectiveness of individual programs. What was seen as a key element to foster the reform was the need to make such mechanisms systematic, transparent, and predictive. Roller and Berkowitz examine the constraints of structural preconditions for effective investments, and point out that there is a possibility of a Policy system overload, combined with an ever-present plausibility of a conflict in program negotiations, as well as the possible delays in program adoption[28].

The hope is that such a unified mechanism will improve the chances of the Europe 2020 program to meet its objectives. Each Member State meeting predefined milestone objectives (to be measured during a mid-term performance review) will be "rewarded" with the funds specially prepared for this purpose (up to 5% of the Cohesion Policy's budget will be set aside for this purpose). Those Member States who fail to meet these objectives may face suspension or even a cancelation of further funding. This effort will be further enhanced by the Commission's proposal to align the funds with the new Stability and Growth Pact enforcement measure, all being a part of the Sixth Economic Governance Package[29].

The effectiveness of Cohesion Policy in promoting growth and jobs creation depends to a great extent on the economic environment in which it operates. Thus, some examples show that the programs failed to achieve desired results due to unsuitable macroeconomic framework conditions. Having this in mind, the Commission is proposing that, when the economic situation of a specific Member State becomes so serious to question the effectiveness of a cohesion investment, continued support from the Cohesion Fund, ERDF, the ESF, the European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF) becomes dependent on the fulfilment of certain fiscal or economic conditions. Although such a measure already exists under the Cohesion Fund, the suspension will be effective on all funds and will "play-out" automatically. However, in order to help prevent such scenarios from occurring often, the Commission desires to establish a "tighter link" between the Cohesion Policy and the EU economic governance (prime examples being the excessive deficit procedure, excessive imbalances procedure and the European semester of economic policy coordination). That should allow a possibility of adaptation of programs financed by the funds, depending on the changing economic circumstances (including the review of the Partnership Contract). Again, failure to meet the proposed changes can result in the suspension of funding. Referring to the mentioned sanction, Illes warns that sometimes the mistakes made by governments in other policies' implementation programs may result in sanctions within the sphere of the Cohesion Policy, where it is quite often the case that it is the local communities and regional authorities that suffer the consequences.[30].

The Proposal envisages a management and control system similar to other present management instruments and based on common principles. A system of national accreditation is placed forward to emphasize the commitment of the Member States to a sound financial management, this is especially being visible through the declaration of assurance and annual (responsible) management of accounts.

The Member States will have a possibility to use common processes for preparation, negotiation, management and implementation, especially where a need for an improved coordination of human capital and infrastructure investments is the greatest. This is especially true for the sub-regional and local level, where, in order to facilitate the implementation of multi-dimensional and cross-sectoral interventions, the Commission proposes to strengthen community-led initiatives through a formation of local action groups, based on the experience of the so-called "leader" approach.

In addition to granting funding, the Proposal goes on to show support to enterprises and projects expected to generate substantial financial returns through innovative financial instruments. Thus, the Commission will offer financing solutions through access to financial instruments set up at the EU level and models for national and regional funds based on standard terms and conditions (as laid down by the Commission). Furthermore, the Proposal seeks to increase legal certainty for all parties, by addressing the observed deficiencies concerning the implementation of such instruments. Finally, such financial instruments can be used for all types of investments, thus enlarging the possibilities of their usage.

Regarding the EU funds utilization, the Proposal envisages the enhanced activity in the field of monitoring and assessing of the development effects that these funds produce. This will, in practice, be conducted through the work of the "monitoring" committee, annual implementation reports, annual review meetings, progress reports on the implementation of the Partnership Contracts, and *ex ante* and *ex post* evaluations. Politicians are generally not interested in achieving long-term goals, but rather, a short-term "score" that is associated with a period of their occupation of government positions. Thus, according to Milio, national and local institutions have to be more accountable, and having in mind the proposed "monitoring" committees, the author proposes the establishment of independent agencies set to mitigate the "capture effects", thus enabling the long-term perspective of project implementation regardless of a political option currently in power.[31].

Currently, different eligibility rules on the use of the available EU funding increase the complexity of management and the risk of error, a fact that led to the re-evaluation of regulation with the purpose of making the administrative costs proportionate. Further benefits of the above mentioned process will be harmonizing the existing rules in order to reduce the overall number of applicable rules, simplify costs options (e.g. flat rates and lump sums), and promote the eligible expenditure, thus enabling different forms of financial support and durability of operations. In order to achieve the set goals, the legislative Package includes an enhanced regulation, setting out common rules governing the ERDF, the ESF, the Cohesion Fund, the EAFRD and the EMFF; three specific regulations for the ERDF, the ESF and Cohesion Fund; two regulations dealing with the EU territorial cooperation, and the European Grouping of Territorial Cooperation (EGTC). The Package seeks to accomplish simpler access and better coordination. As Kirbiš emphasizes [32], there is a need for a more intensive mutual cooperation between ESF and ERDF to enable the retrieval of integrated solutions of problems on the regional level. Nagy[33], on the other hand, criticizes the separation of the agricultural and structural fund systems. He fears that this separation may lead to a diversity of problems in practice.

Lorand claims that, in order to foster convergence at the regional level, it is advisable to reform the Cohesion Policy fund allocation system and try to allocate the subsidies in connection with the different development levels[34] – or in other words – more support for the less developed parts of the EU. The Commission's Proposal envisages a new architecture comprising of the three categories of regions:

(a) Less developed regions: GDP *per capita* is less than 75 % of the average GDP of the EU-27 – the proposed funding anticipates 68.7% of the Cohesion Policy budget, or more specifically, €162.6 billion. It is estimated that the number of the less developed regions in the next period will amount to 68, comprising of €119.2 billion, which is 35 million citizens, or 16 regions less when compared to the current 2006-2013 period[35].

(b) Transition regions: A new category of regions intended to replace the current phasing-out and phasing-in system. This category will include all regions with a GDP *per capita* between 75% and 90% of the EU-27 average – the proposed funding amounts to 11.6%, or €38.9 billion. The purpose of this category is to provide support to the newly "promoted" regions facing a sudden drop in EU funding, in order to help the continuation of the successful economic transition.

(c) More developed regions: Regions focused on the global competition in the knowledge-based economy, including a shift towards the low-carbon economy and social polarization. This category refers to the regions whose GDP *per capit*a is above 90% of the average GDP of the EU-27 – funds allocated corresponds to15.8%, or €53.1 billion.

It is vital to provide help not only to the least developed regions, but also to other categories of regions facing problems derived from the economic and social restructuring, or demographic changes creating a negative effect on competitiveness and employment. Mairate is of an opinion that financial support to such regions enables a real added value to national and regional policies due to the greater focus of investments towards innovation or knowledge economy[36]. The maximum co-financing rates after 2014 will amount to 85% for the less developed regions, 60% for the transition regions, and 50% for the most developed regions. According to Jacques Delors' vision, "... [the] *EU Cohesion policy is not a compensatory policy, but a developmental one that stimulates investments in 'hardware', whilst also putting emphasis on 'software development': coordination, cooperation and capacity building...*"[37]. This again confirms the notion that the Cohesion Policy must apply to other categories of regions as well, and not only to the least developed.

Kirbiš pointed out that a number of Member States exhibit difficulties in absorbing large volumes of the EU funding over a limited period of time, while at the same time facing difficulties with providing national co-financing[38]. In order to address this issue, the Commission proposes a new model of regulation:

(a) The cohesion allocations capping rate should be fixed at 2.5% of the GDP (the current maximum amount was capped at 4%).

(b) The capping of the co-financing rates at the level of each priority axis within the operational programs should be fixed at 85% in less developed regions and outermost regions (or in certain cases, 80% and 75%), 60% in transition regions and 50% in more developed regions.

(c) Specific conditions should be included in the Partnership Contracts regarding the improvement of administrative capacity.

The Commission's proposal to sanction, through the Structural Funds, the Member States that breach the fiscal discipline, caused a considerable unrest amongst the interested parties. The key element of the new regime is the proposal to sanction the Member State whose public debt exceeds 60% of the GDP and the national budget deficit exceeds 3%. Main criticism regarding this proposal is the notion that such system of sanctions would only serve to "punish" already weak economies struggling with internally and externally caused economic crisis, whereas at the same time, no support would be offered, thus depriving the citizens of these countries from a chance of recovery, and at the same time making local and regional authorities responsible for the actions made by governments. This, in short, as Roller and Berkowitz assert, would serve as a "double-penalty", denying the regional aid so desperately needed[39].

The Commission proposes a more result-oriented programming process. This is primarily shown through the introduction of the Joint Action Plans - operations comprising a group of projects as part of a single operational program, with specific objectives, result indicators and outputs agreed between the Commission and the Member States. Such a structure enhances performance and simplifies management and control structures.

Management and control systems need to be balanced between the costs of management and control, and the risks involved. This means a novel "risk-based" approach, aimed, on one hand, at reducing administrative costs associated with small programs, and, on the other, at allocating more resources to areas of higher risks. As an example, the electronic data management (to be established in each Member State by no later than 2014) can contribute to the overall reduction of administrative costs, at the same time offering high level of supervision of project enforcement and expenditure. Additionally, the mandatory annual closure of completed operations or expenditure will serve to lessen the financial burdens connected to the obligation to retain the project documents in the duration of three years.

Furthermore, in the context of the already mentioned importance of including territorial cohesion as one of the EU objectives, alongside economic and social cohesion, Faludi and Peyrony offered a definition of Territorial Cohesion, stating that such cohesion is aimed at "*...enabling citizens and enterprises, wherever they happen to live or operate, to benefit from, and contribute to, European integration and the functioning of the Single Market, and to make the most of the territorial capital of places due to respect to sustainability...*"[40]. According to the TFEU, the Territorial Cohesion is a relevant factor in promoting competitiveness, ensuring at the same time a balance regarding the levelling-up of the inequities as observed both on regional and social level, in order to achieve what Delors has framed under the name of the "European model of society". In this sense, the European territorial cooperation (interregional, cross-border and transnational) is deliberated through a separate regulation which clarifies and simplifies provisions for territorial cooperation programmes. A part of the Cohesion Policy's budget is aimed at financing the European territorial cooperation, consisting of €11.7 billion (or 3.48%), and reserved to promote the cross-border, interregional and transnational projects. Gil, Pereira and Teixeira[41] examine the dichotomy between the "centre" and "periphery", and stress out the necessity of reaching a clarification regarding a solution to the issues resulting from the inequalities in development between two individual (unequal) regions. The Commission's proposed changes primarily focus on distant and scarcely populated areas, as seen through the proposed allocation of the funds, where a significant part of the budget is reserved for the development of distant and scarcely populated areas in the north of the EU – €0.9 billion (0.27%).

Furthermore, having in mind the European territorial cooperation, since 2006, the local and regional bodies have been able to set up European Groupings for Territorial Cooperation (EGTCs), legal instruments designed to facilitate and promote cross-border, transnational and interregional cooperation. Regarding the existing model, the Commission proposes significant modifications: easier establishment of EGTCs; reviewing activity scope; opening EGTCs to non-EU regions; clearer operating rules on staff recruitment, spending and protecting creditors; and practical cooperation in providing public and local services. Perhaps some of the proposed measures will be mitigating for the new Member States, still facing severe problems when making an effort in formulating a development strategy, i.e. a lack of experience in cross-border cooperation, language barriers, a lack of political continuity, legal uncertainties, a lack of capacities and know-how. Parallel to the named modifications, a new instrument, the Connecting Europe Facility, will be designed for the purposes of the cross-border projects encompassing energy, transport and information technology, with a separate budget of €40 billion. The Community Strategic Guidelines on Cohesion Policy clearly state that geography matters, as explained through the means of territorial cohesion[42]. The establishment of the Connecting Europe Facility would confirm the importance of the above named factor, the "geography".

The preparation of the next generation of programs to be commenced in the *post* 2013 period will seek to foster effectiveness and the quality of the delivery of Cohesion Policy. Thus, it is important to enumerate the basic elements of the new design[43]:

(a) In order to promote the Trans-European Networks in the area of transport, energy and information and communication technologies, the Connecting Europe Facility will specifically serve to fulfil this purpose.

(b) The European Social Fund will receive at least 25% from the Cohesion Policy's funding, in order to promote higher skilled labour market.

(c) The more developed and transition regions will receive additional funding concerning the use of renewable energy and strengthening of the resource-efficient economy.

Illes proposes that, having in mind that the share of the ESF funding within Structural Funds has decreased in recent years, the share of the ESF funding should be increased with more focus being placed on employment creation, reduction of poverty and reduction of early school dropout[44]. It is questionable whether the envisaged amount of funding (as specified by the Proposal) is sufficient to accomplish all the mentioned objectives. Regardless of whether the proposed reform is approved by the Member States or not, it is essential that projects for the upcoming financial period are already being planned and prepared[45].

According to Faludi and Peyrony,[46] the main purpose behind the Europe 2020 Strategy is to promote the EU into the most competitive global "knowledge-economy". What remains to be seen is whether the Proposal can meet the challenges thus formulated. Considering previous reactions of some Member States to the proposed reductions in budget financing and the introduction of more complex conditionalities, it is difficult to assess whether the proposed reform will provide an incentive or an obstacle towards achieving the Commission's objectives. The successful implementation of both the Proposal and the Europe 2020 Strategy depends on a number of factors, such as the domestic regional policy system, the funding available in the individual states for the individual programming period, domestic legislation on the public procurement, budget implementation and other fields, orientation of development programs and administrative experience with management of such programs [47].

4. Conclusion

Achieving a better economic, social and territorial cohesion remains among the top EU priorities. According to the mentioned facts concerning the upcoming reform, the Cohesion Policy will continue to focus on the enhancement of competitiveness and employment, as well as on the reinforcement of the balanced development of rural and urban areas. The main elements of the Cohesion Policy reform for the *post* 2013 period, such as the concentration on a small number of priorities, stronger incentives and conditionalities, result-oriented delivery system and the use of new financial instruments, are to be introduced with the aim to contribute to the economic recovery, having in mind the devastating effects of the current crisis as observed throughout the EU regions. Further strengthening of the Cohesion Policy requires a clearly set regulation and institutional framework with strict monitoring and control requirements - elements that, if successfully implemented, should create a solid impact on the quality of the Policy's enforcement and improved utilization of the CP Funds' assets.

In recent years, it has become apparent that the efficiency and effectiveness of the utilization of the EU Cohesion Policy funds is not as successful as originally intended. To achieve a desired impact, a notion of clear conditionality should be introduced. Whether this conditionality will be accepted by all stakeholders remains a question. Moreover, political interests could hamper the Cohesion Policy's effective application. In the upcoming period, the overall picture will be clearer, following the Public Consultation on Common Strategic framework (January 2012). The main trust, as envisaged by the proposed reform in combination with the Europe 2020 objectives, is concentrated on enhancing the Single Market advantages and job creation. The limited funds require a carefully assessed choice of projects that must be manageable and directed at fulfilling the objectives of the overall strategy.

The general aim of the reform is to thrust the EU onto the global market as the leader in the competitive knowledge-economy setting. The main question is whether the Proposal is capable to respond to current challenges that provide obstacles to the envisaged goals. Having in mind the previous reactions of some Member States regarding the proposed reductions in financing and establishing overall conditionalities, it is questionable whether the proposed reform will serve as an incentive or an obstacle. The successful implementation of both the Proposal and the Europe 2020 Strategy depends on a number of factors, including the domestic regional policy system, the financial capabilities of the Member States for individual program financing, the domestic legislation on public procurement, budget implementation and other related fields, and, the development programs' orientation and administrative experience regarding the management of such programs. The stimulation of the economy through faster growth and restructuring of under-developed areas may be challenging, but the two mentioned methods do not necessarily exclude each other and their synergy can be accomplished, provided that this is preceded by a sound cooperative performance strategy.

As stressed throughout the article, special attention must be paid to those areas which are most affected by the recent crisis, as well as the distant and scarcely populated areas. Without the EU Cohesion Policy, it is quite reasonable to assume that the economic strength distinction would serve only to increase the divergence currently present between the rich and the poor regions and areas. However, parallel to the dedication to the above named objectives, the Cohesion Policy must continue with the support offered to transition regions that are denied the sort of assistance they have been enjoying up to 2013. At the same time, no less attention should be reserved for the better-off regions that provide a significant boost to the EU's competitiveness. Whereas the aid offered to transition regions is generally accepted by all stakeholders, the proposed support to the developed regions jump-started a serious debate within the Community as to the soundness of such a direction. The rationale behind a continuous support of the developed regions is, in principle, two-folded: (a) on one side, even such regions have areas within their scope where the development stage is not equal to the overall development of that region, and (b) the Europe 2020 Strategy, on the other, is focused, *inter alia*, on the sort of projects that require a pre-existence of the necessary infrastructure and a certain level of development, usually only available in the developed regions (at the same time not undermining other targets as set by the Europe 2020 strategy, that can and must be implemented in other types of regions). Ideally, referring once again to the Cohesion Policy's objectives, all European territories should be supported to such amount as to enable them to become capable of realizing their full potential. So the defined added value of the Cohesion Policy can only be accomplished through the Europe 2020 Strategy if the planning and management of the Cohesion Policy projects and Europe 2020 objectives are mutually coordinated and inter-linked.

NOTES

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[2] For more on the issue of solidarity, see: Leonardi, R. (2005). *Cohesion Policy in the European Union: the building of Europe*, p 6-8.

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[5] Council Regulation (EEC) No 4254/88 of 19 December 1988, laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the European Regional Development Fund, Official Journal L 374 , 31/12/1988 P. 0015 - 0020cil Regulation (EEC) No 4254/88 of 19 December 1988, laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the European Regional Development Fund, Official Journal L 374, 31/12/1988 P. 0015 – 0020.

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[18] Agh, A. *Regional competitiveness of the EU in the global context: EU developments from regional policy to cohesion policy*, p 14.

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[20] Panorama inforegio. *Delivering smart, sustainable and inclusive growth* (36), p 14.

[21] Panorama inforegio. *Delivering smart, sustainable and inclusive growth* (36), p 27.

[22] Roller, E., Berkowitz, P. (2011). *Conditionality: a sheep in wolf's clothing?*, p 3.

[23] Asare-Donkoh, F. (2011). *The future of Cohesion Policy: can Slovenia learn from the Welsh experience?*, p 2.

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[26] MEMO/11/663. Q&A on the legislative package of EU regional, employment and social policy for 2014-2020, p 2.

[27] MEMO/11/663. p 3.

[28] Roller, E., Berkowitz, P. (2011). *Conditionality: a sheep in wolf's clothing?*, p 9.

[29] For more on this issue, see: Roller, E., Berkowitz, P. (2011). *Conditionality: a sheep in wolf's clothing?*, p 10.

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