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{COM(2014) 473 final}

Chapter 6: The evolution of Cohesion Policy

1. Introduction

Although the origins of Community policies to tackle regional disparities can be traced back to the Treaty of Rome, Cohesion Policy was only really initiated in 1989. In the years before, the Community funds with territorial impact (i.e. the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the European Agriculture Guidance and Guarantee Fund) financed predetermined national projects with little European or subnational influence. In the 1980s, a series of events triggered a policy change, most notably the Single European Act, the EU accession of Greece, Spain and Portugal and the adoption of the single market programme. This resulted in 1988 in the first regulation integrating the Structural Funds under a common policy umbrella to further economic and social cohesion. Key principles were introduced at the same time, such as concentrating support on the poorest parts of the EU, multi-annual programming, a strategic orientation of investment and the involvement of regional and local partners. It also resulted in a significant increase in funding for the period 1989-1993 compared to the past.

The Maastricht Treaty which entered into force in 1993 established a new instrument, the Cohesion Fund. The Cohesion Policy regulation adopted for the period 1994-1999, which also included the Financial Instrument for Fisheries Guidance, incorporated the key principles of concentration of resources, multi-annual programming and additionality of EU funding. It also strengthened the rules on partnership and evaluation. The financing allocated to Cohesion Policy was doubled and covered a third of the EU budget.

The 2000-2006 period began with Member States agreeing the 'Lisbon Strategy' (in March 2000) with its focus on growth, employment and competitiveness which became the leitmotiv of many EU policies and triggered a shift in Cohesion Policy towards more emphasis on innovation. The period also saw the biggest ever enlargement of the EU, with 10 new Member States joining in May 2004. These added 20% to the EU's population but only 5% to its GDP. The enlargement accordingly increased disparities in income and employment across the EU since the average GDP per head in the new countries in PPS terms was less than half the existing average and only 56% of their population of working age were in employment as compared with 64% in the existing Member States.

With the accession of Bulgaria and Romania, the 2007-13 period brought the highest concentration ever of Cohesion Policy funding on the poorest Member States and regions (81.5% of the total). In line with the 'Growth and Jobs' agenda launched in 2005, a quarter of the financial resources were earmarked for research and innovation and around 30% for environmental infrastructure and measures to combat climate change. Other important changes introduced to make Cohesion Policy more efficient and sustainable included the promotion of financial engineering instruments and the creation of technical assistance facilities to help Member States to prepare major projects of high quality.

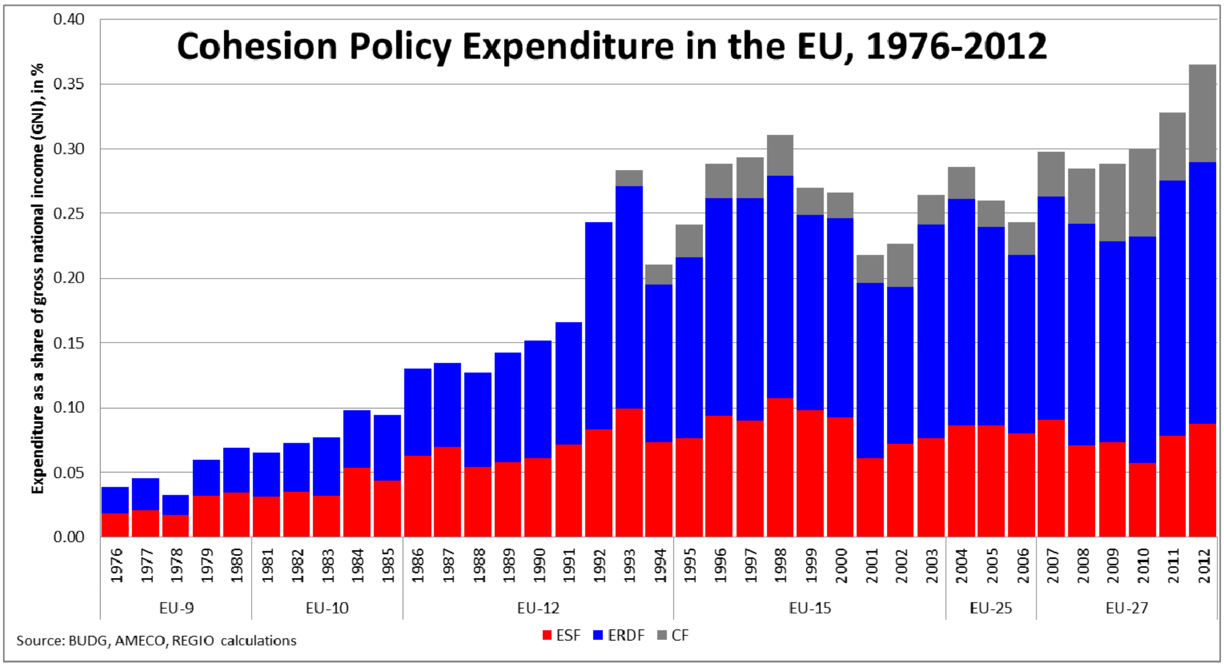
This chapter reviews the evolution of Cohesion Policy from 1989 to 2013. The first section describes the changes in the funding and the geography of the policy. The second section describes how the goals of the policy have evolved over time and the economic arguments underlying these goals.

2. AS THE FUNDING GREW, THE GEOGRAPHY BECAME SIMPLER

2.1. Cohesion Policy expenditure increased as a share of GNI

Cohesion Policy absorbs a relatively small share of EU Gross National Income (GNI), reaching a high of 0.36% in 2012. Nevertheless, over the last two decades, Cohesion Policy has become the main source of EU funding for the Unions political agenda. At the same time, the accession of less developed Member States and widening regional disparities have increased the challenges to be tackled.

Figure 1: Cohesion policy expenditure in the EU, 1976-2012



The balance between the three funds (ERDF, ESF and Cohesion Fund) which finance Cohesion Policy depends primarily on the investment needs of the less developed regions and Member States. In the 1970s and early 1980s, before the Cohesion Fund was introduced, overall expenditure was low and split more or less evenly between the ESF and ERDF. With the accession of Greece, Spain and Portugal, their need for more infrastructure investment led to an increase in the relative amount of funding allocated to the ERDF.

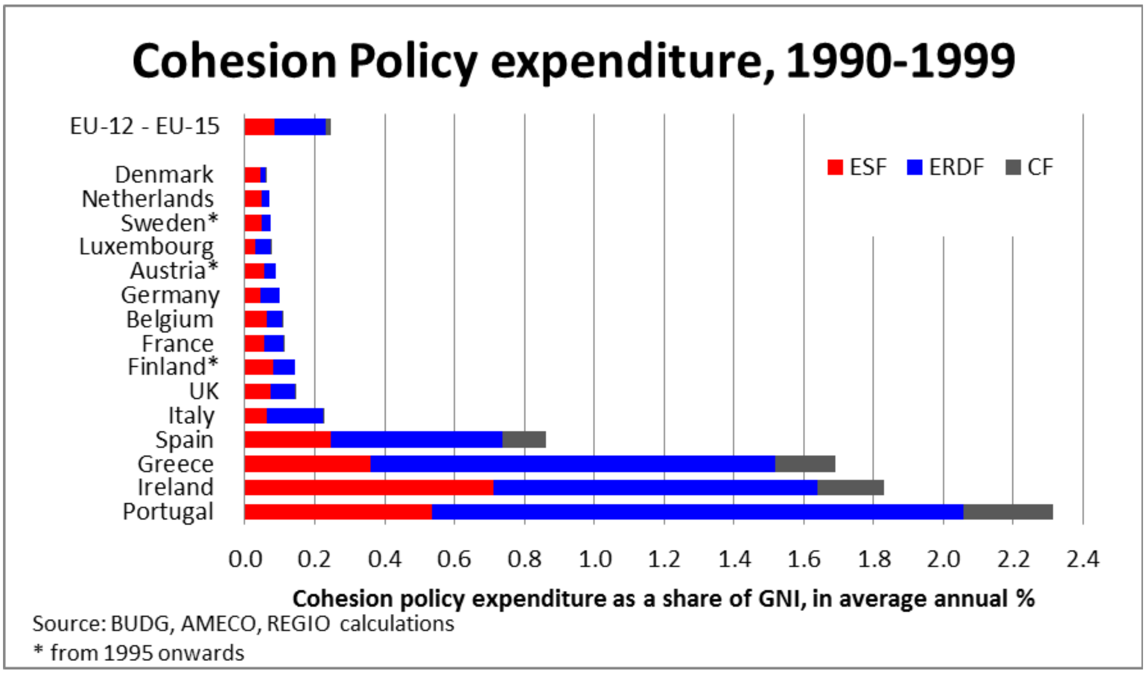
In the 1990s, the Cohesion Fund was introduced to increase the support for investment in transport and environmental infrastructure in countries with low GNI. Up to 2006, the amount involved was only around 0.03% of EU GNI. Between 2007 and 2012, expenditure financed by the Cohesion Fund doubled as a share of GNI as a result of the EU enlargements of 2004 and 2007 and the entry of 12 countries with very poor infrastructure endowment.

2.1.1. Cohesion Policy in the 1990s

In the 1990s, Cohesion Policy expenditure relative to EU GNI increased by 150% with much of the increase occurring in the least developed Member States: from 1% to 2.3% of GNI in Portugal, from 1% to 1.8% of GNI in Ireland, from 0.6% to 1.7% in Greece and from 0.3% to 0.9% in Spain (see

Figure 75). The remaining Member States received funding of between 0.05% and 0.2% of their GNI during the 1990s.

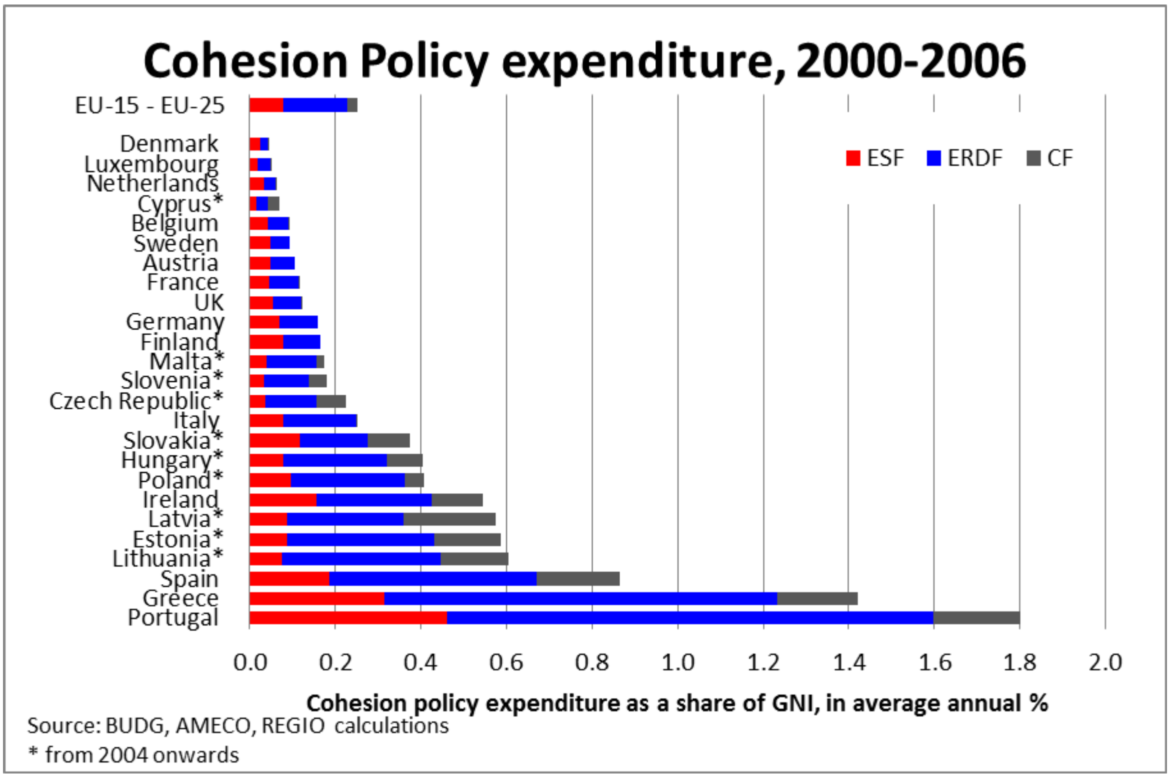
Figure 2: Cohesion Policy expenditure per MS, 1990-1999



2.1.2. Cohesion Policy since 2000

Cohesion Policy expenditure between 2000 and 2006, remained relatively high in Portugal (1.8% of GNI), Greece (1.4%) and Spain (0.9%). In the 10 Member States which joined the Union in 2004, which had only a limited time to carry out Cohesion Policy expenditure before the end of the period, the amount varied between 0.2% of GNI and 0.6%, except for Cyprus (0.1% of GNI).

Figure 3: Cohesion Policy expenditure per MS, 2000-2006

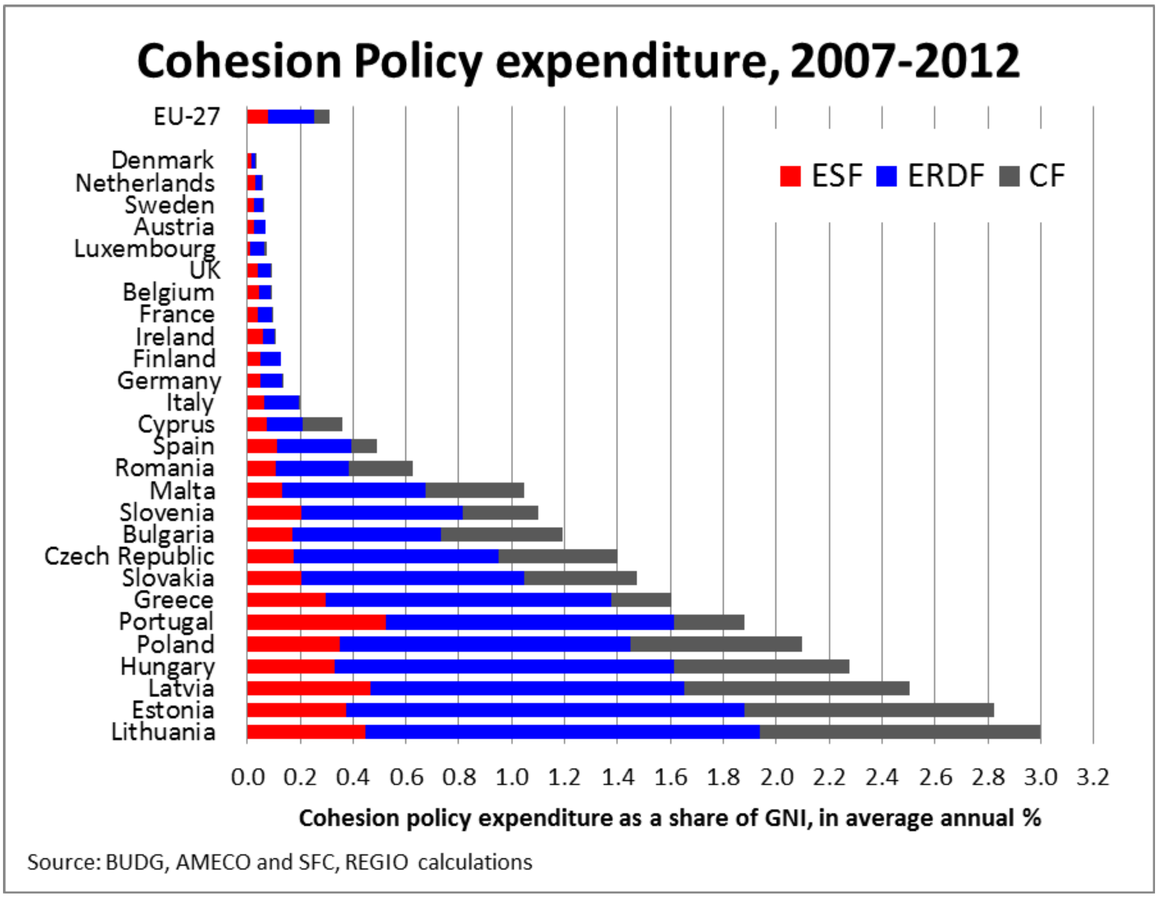


Cohesion Policy expenditure between 2007 and 2012 was higher in relation to GNI, in part because a large part of the funding for the 2000-2006 period was spent in the three years 2007 to 2009 on top of spending from the funding for 2007-2013. Exenditure in the three Baltic States amounted on average to between 2.5% and 3% of their GNI a year over this period, while in Hungary, it represented 2.3% of GNI and in Poland, 2.1%, more than in any of the Member States in the 2000-2006 period.

In Portugal, expenditure under Cohesion Policy increased slightly to 1.9% of GNI a yyear and in Greece, to 1.6%, while in Malta, Slovenia, Bulgaria, the Czech Republic and Slovakia, it amounted to between 1% and 1.5% of GNI.

The EU-15 with the exception of Portugal, Greece and Spain received between 0.2% and 0.03% of their GNI a year.

Figure 4: Cohesion Policy expenditure per MS, 2007-2012



2.2. The geography of the policy became simpler between 1989 and 2013

From 1989, regions were categorised into different groups in terms of policy objectives and the scale of funding received. There have been three tendencies since then: (1) the maintenance of continuity in the support provided, (2) a reduction in the categories of regions and (3) a shift to a simpler geographical coverage.

Continuity

There has been continuity in the way that regions receiving the most support are defined. These were categorised as 'Objective 1' up to 2006, 'Convergence' up to 2013 and 'less developed' from 2014, but in each case, they have been defined as those with GDP per head in PPS terms below 75% of the EU average. The regions in question, which have consistently been defined in nearly all cases at the NUTS 2 level, are a mix of administrative and purely statistical entities, which as such do not necessarily correspond with functional labour markets, functional economic urban areas or political jurisdictions.

The population covered by the category concerned has fluctuated over the five programming periods. In the first two periods, 25% of EU population lived in Objective 1 regions. The enlargement in 2004 increased the proportion to 34%. Then convergence of GDP per head towards the EU average of some of the regions covered reduced the proportion to 32% in the 2007-13 period, despite the accession of Romania and Bulgaria and the extension of support to them. Continuing convergence has led to a further reduction in the proportion to 25% for the 2014-2020 period, back to what it was 25 years ago.

Table 1 Population by category of region, 1989-2020 (%)

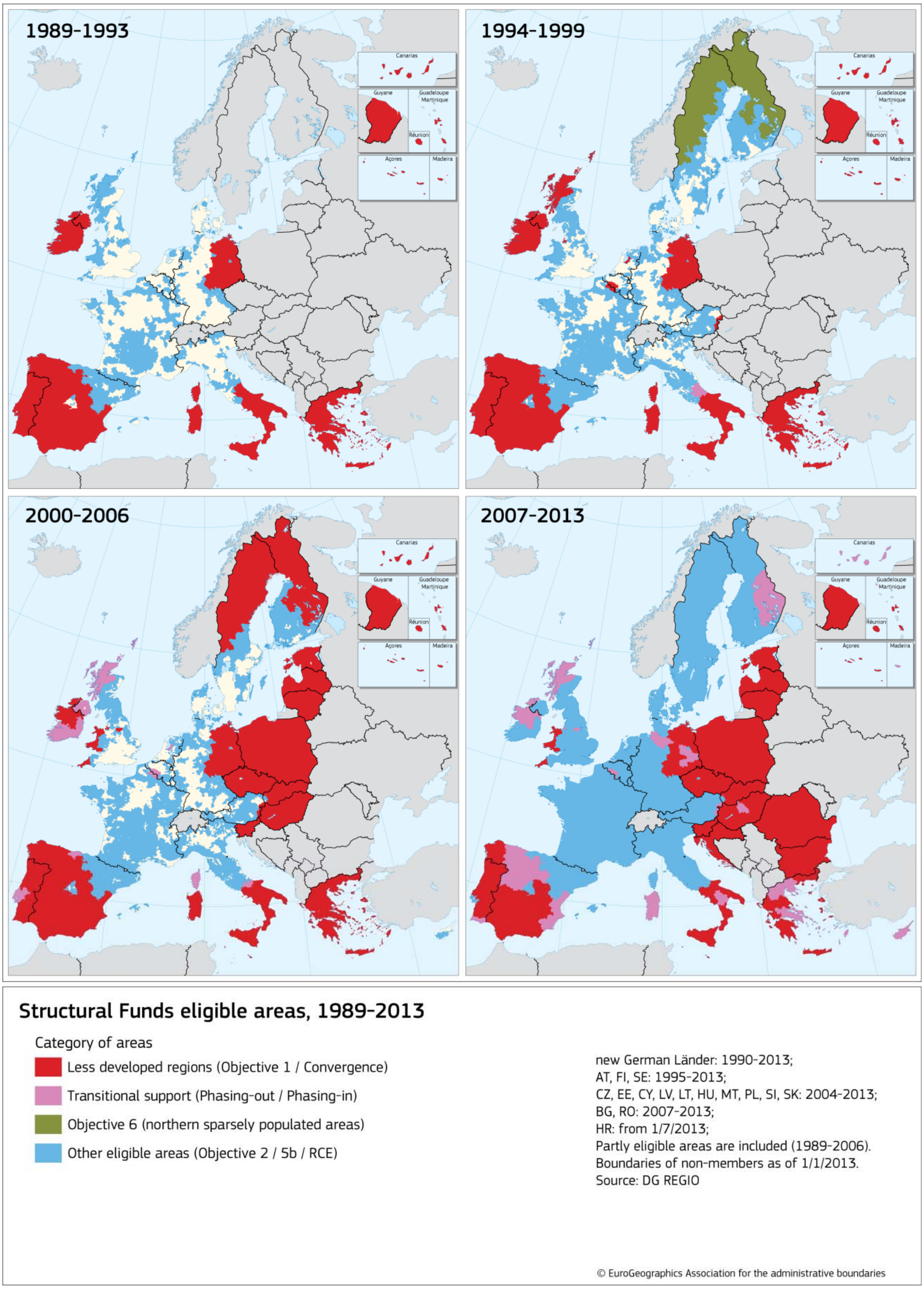
<table>
<tr><th></th><th>1989-1993</th><th>1994-1999</th><th>2000-2006</th><th>2007-2013</th><th>2014-2020</th></tr>
<tr><td>Obj. 1 (1989-06)-
Convergence (2007-13) -
Less Developed (2014-20)</td><td>25.4</td><td>24.6</td><td>34.1</td><td>31.7</td><td>25.4</td></tr>
<tr><td>Transition Regions</td><td></td><td>0.3</td><td>2.9</td><td>7.3</td><td>13.5</td></tr>
<tr><td>Objectives 2 (1989-06)-5b
(1989-99)</td><td>21.7</td><td>25.0</td><td>15.2</td><td rowspan="3">61.0</td><td rowspan="3">61.0</td></tr>
<tr><td>Objectives 3 (1989-06)-4
(1989-99)</td><td>74.6</td><td>75.0</td><td>63.0</td></tr>
<tr><td>Regional Competitiveness
and Employment (2007-13)
-
More developed (2014-20)</td><td></td><td></td><td></td></tr>
<tr><td>Objective 6</td><td></td><td>0.4</td><td></td><td></td><td></td></tr>
<tr><td>Cohesion Fund</td><td></td><td>16.9</td><td>30.9</td><td>34.3</td><td>25.8</td></tr>
<tr><td>Population of</td><td>EU-12</td><td>EU-15</td><td>EU-25</td><td>EU-27</td><td>EU-28</td></tr>
</table>

<table>
<tr><th>Objective</th><th>1989-1993</th><th>1994-1999</th><th>2000-2006</th><th>2007-2013</th><th>2014-2020</th></tr>
<tr><td>1</td><td colspan="3">development and structural adjustment of regions where development is lagging behind;</td><td>Convergence</td><td>Less developed</td></tr>
<tr><td>Ex-1</td><td>n/a</td><td>1994-1996 Abruzzo</td><td>Phasing-out Objective 1</td><td>Phasing-out and -in</td><td>Transition</td></tr>
<tr><td>5b</td><td>Promotion of rural development</td><td>Development and structural adjustment or rural areas *</td><td rowspan="2">Objective 2: supporting the economic and social conversion of areas facing structural difficulties;</td><td rowspan="5">Regional competitiveness and employment</td><td rowspan="5">More developed</td></tr>
<tr><td>2</td><td>Converting the regions, frontier regions or parts of regions seriously affected by industrial decline</td><td>Converting the regions or parts of regions seriously affected by industrial decline</td></tr>
<tr><td>3</td><td>Combating long-term unemployment</td><td>Combating long-term unemployment and facilitating occupational integration</td><td rowspan="2">Objective 3 Training systems and employment policies</td></tr>
<tr><td>4</td><td>Occupational integration of young people</td><td>Adapting the workforce to industrial changes</td></tr>
<tr><td>6</td><td>n/a</td><td>Development and structural adjustment of regions with an extremely low population density</td><td>Part of Objective 1</td></tr>
<tr><td>Number of categories **</td><td>5</td><td>7</td><td>4</td><td>3</td><td>3</td></tr>
</table>

* From 2000 onwards, part of the support for rural development was financed by the second pillar of the Common Agricultural Policy outside Cohesion Policy programmes

** Not including community initiatives or subsequent the territorial cooperation objective.

Map 1: Cohesion Policy, categories of regions: 1989-2013



Reduction in categories of regions

The categories of region since 1989 have been reduced from five in 1989-1993 and 7 in 1994-1999 to three in 2007-2013 and 2014-2020 (Table 23). In the 1989-1993 period, there were three categories specifically aimed at reducing regional disparities: Objective 1 to assist less developed regions, Objective 2 to support the economic conversion of areas seriously affected by industrial decline and Objective 5b to help the development of rural areas. The last two categories could overlap and typically covered much smaller areas than NUTS 2 regions, identified as having the most pressing problems. The other two categories covered the whole of the EU outside Objective 1 regions: Objective 3 to provide support for combat long-term unemployment and Objective 4 for the integration of young people into employment.

These categories remained in force in the period 1994-1999 period, when EU enlargement in 1995 to include Austria, Sweden and Finland led to the creation of a new category specifically to provide support to the last two countries: Objective 6 to assist regions with an extremely low density of population. In addition, the first Transition category was created for Abruzzo to provide a measure of support in order to reduce the economic effect of Objective 1 status and funding being withdrawn.

In the 2000-2006 period, Objective 5b was amalgamated into Objective 2, the aim of which was generalised to cover the support for the economic and social conversion of areas, again typically much smaller than NUTS 2 regions, facing the most pressing structural problems of whatever kind. At the same time, the transition category was extended to support the ‘phasing-out’ of regions that received Objective 1 funding in the previous period but in which GDP per head had risen above the 75% threshold. Objective 3 and 4 were combined and continued to cover all the non-Objective 1 regions.

In the 2007-2013 period, Objective 1 was renamed ‘Convergence’ and Objective 2 and 3 were combined under the term ‘Regional Competitiveness and Employment’. The Transition category was expanded to cover both ‘phasing-in’ and ‘phasing-out’ regions, the former being those in which GDP per head had risen to more than 75% of the EU-15 average, the latter those where it was still below 75% of the EU-15 average but above 75% of the new EU-27 average resulting from the entry of the 12 central and eastern European countries. The funding provided to these, while being much smaller than to Convergence regions, was significantly larger than that available to Regional Competitiveness and Employment regions.

For the present 2014-2020 period, three categories remain but their names have been changed again to ‘Less developed’, ‘Transition’ and ‘More developed’. The Transition category now covers all regions with GDP per head between 75% and 90% of the EU-27 average, though regions which were Convergence ones in the previous period receive more funding than the others.

A shift to a simpler geographical coverage

The proportion of EU population in what are now termed ‘less developed’ regions increased with the 2004 enlargement from 25% of the EU-15 population to 34% of the EU-25 population. Despite the entry of Romania and Bulgaria in 2007 and of

Croatia in 2013, the convergence of GDP per head towards the EU average in many of the regions led to the population in those remaining with GDP per head below the 75% threshold falling to 32% of the EU-27 total in 2007 and then to 25% of the EU-28 total in 2014.

Under Objective 2 (and Objective 5b up to 1999), the approach was, as noted above, to concentrate support on the areas with the most pressing needs, which were often very small, sometimes even parts of a municipality. Such 'micro-zoning' often made the design and implementation of programmes difficult because to tackle the development problems concerned effectively in many cases required investment in neighbouring areas and not just in the small areas eligible for support. In 2007, ‘micro-zoning’ was, therefore, dropped and the 'Regional Competitiveness and Employment' category was created to cover all regions apart from the Convergence and Transition ones. This continues to be the case in the 2014-2020 period, though the names of the categories have been changed.

In the 1994-1999 period, the Cohesion Fund covered Ireland, Spain, Portugal and Greece, which accounted for 17% of the EU-15 population. In the next period, these four countries remained eligible, though support was withdrawn from Ireland in 2003 as growth had raised its GNI well above the 90% threshold. The 10 countries that joined the EU in 2004 also became eligible for support, increasing the coverage to 31% of the EU-25 population. In the 2007-2013 period, the entry of Romania and Bulgaria increased the population covered to 34% of the EU-27 total, though support for Spain was phased out because of the increase in its GNI. In the 2014-2020 period, the Cohesion Fund covers Greece, Portugal and all 13 countries that have joined the EU since 2004, which together account for 26% of the EU-28 population.

Box on Macro-regional cooperation

Macro-regional strategies are a new way of supporting territorial cooperation, representing a joint response to common environmental, economic or security related challenges in a particular area. Though no additional EU funding is provided, help is given in directing Cohesion Policy programmes to the pursuit of shared goals.

Two macro-regional strategies have been agreed so far, one for the Baltic Sea Region (adopted in 2009) covering the environment, economic development, accessibility and security, and the other for the Danube region (adopted in 2011) focused on connectivity, the environment, prosperity and capacity building. There are now over 100 flagship projects in the Baltic Sea Region and 150 projects are in the process of being implemented in the Danube Region out of 400 (involving expenditure of EUR 49 billion) which are being considered.

The European Council has invited the Commission to present an EU Strategy for the Adriatic and the Ionian Region by the end of 2014.

Box on Territorial Cooperation programmes started in 1989 with INTERREG

– INTERREG I (1990-1993)

The INTERREG Initiative was launched in 1990 in order to help tackle the disadvantages created by national administrative boundaries separating neighbouring regions in the emerging Single Market. It focussed purely on cross-border cooperation with an allocation of EUR 1.6 billion (at 2011 prices) or just over 2% of total Cohesion policy funding. It included 31 Operational Programmes in internal and external border regions and provided support to over 2,500 projects.

– INTERREG II (1994-1999)

The INTERREG II Initiative, from 1994 to 1999, had a larger budget of EUR 4.9 billion (again at 2011 prices) and extended the scope of territorial co-operation. The number of cross-border programmes almost doubled from 31 to 59 as a result of the accession of Austria, Finland and Sweden in 1995 and the creation of a dedicated instrument for cooperation between regions either side of external borders. Programmes were also extended to cover support for education, health, media services and language training. In addition, a transnational strand was created to support cooperation across large contiguous areas and the exchange of information and sharing of experience in regions in the different countries concerned.

– INTERREG III (2000-2006)

The 2000–2006 period saw a further enlargement of the EU and increase in border regions. The budget for INTERREG-III was increased to EUR 6.2 billion, with funding for transnational cooperation increased by EUR 890 million and that for interregional cooperation reduced (by EUR 150 million).

– Territorial Cooperation (2007-2013 and 2014-2020)

In the 2007–2013 period, Territorial Cooperation was distinguished as an objective of Cohesion Policy and was allocated a budget of EUR 8.9 billion (including support for the Instrument for Pre-Accession, IPA, and European Neighbourhood Partnership Instrument, ENPI), or 2.5% of the total.

For 2014-2020, the budget has been maintained in real terms despite a slight reduction in the overall budget for Cohesion Policy.

Table 2: Funding for territorial cooperation, 1989-2020

(EUR billion at2011 constant prices)

	1989-1993*	**1994-1999**	**2000-2006**	**2007-2013**	**2014-2020**
Cross-border	1.64	3.64	3.90	6.60	6.62
Transnational		0.71	1.60	1.80	1.82
Interregional		0.55	0.40	0.45	0.50
Total	1.64	4.90	6.20	8.88	8.94
Share of Cohesion Policy Funding (%)	2.2	2.1	1.9	2.5	2. 8

Source: Structural Fund reports, Ex-post evaluation of INTERREG and SFC

* Refers to 1990-1993

2.3. Funding remains concentrated on the less developed regions

From 1989 onwards, the EU Budget became a multi-annual one. This facilitated the adoption of a long-term perspective for the programmes funded under Cohesion Policy. The first period was five years (1989-1993), the second six (1994-1999) and the third and subsequent periods seven. The bulk of funding has consistently been allocated to the less developed regions (Table 25). If the Cohesion Fund is included, the share going to these regions has changed very little since 1989, from 76% in 1989-1994[1] to 73% in 2014-2020, though with a high of just over 80% in 2007-2013.

Table 3: Funding distribution between categories of regions, 1989-2020 (%)

	1989-1993	1994-1999	2000-2004	2004-2006	2007-2013	2014-2020
Less developed	73.2	61.6	63.6	63.2	59.0	53.5
Transition	0.0	0.2	2.6	2.0	7.5	10.8
More developed	23.6	27.4	24.3	19.1	12.9	16.5
Cohesion Fund	3.1	10.8	9.4	15.7	20.7	19.2
Less developed and Cohesion Fund	76.4	72.4	73.1	78.9	79.7	72.8
Total	100.0	100	100	100	100	100
EU	EU-12	EU-15	EU-15	EU-25	EU-27	EU-28

Source: Structural Fund Reports, SFC and REGIO calculations.

The aid intensity in less developed regions (funding relative to the population covered) started out at EUR 110 per person (at 2011 constant prices), increased to EUR 259 in the EU-15 in the 2000-2006 period, declined to EUR 188 in the 2007-2013 period and has been reduced further to EUR 180 per person for 2014-2020

The Cohesion Fund had an aid intensity of EUR 54 per person (at 2011 prices) when it was first introduced in the 1994-1999 period. With enlargement in 2004, it fell to just below EUR 50, though it was increased to EUR 60 in the 2007-2013 and to EUR 62 per person for 2014-2020.

The aid intensity in Transition regions started at the relatively low level of EUR 49 per person in 1994-1999 (when only Abruzzo was covered) and was increased to EUR 101 in the 2007-2013 period, but it has been reduced to EUR 66 per person for the 2014-2020 period.

Aid intensity in the more developed regions for 2014-2020 as in the previous period is slightly over EUR 20 per person, compared to around EUR 30 in the 1994-1999 and 2000-2006 periods[2].

1 Data on funding distribution by type of region is not available prior to 1989 as no regional categorisation was used prior to 1989.

2 The aid intensity of more developed regions covers Objective 2 and 3 in 2000-2006 and Objective 2, 3, 4 and 5b in 1994-1999. Objective 2 and 5b were geographically more concentrated and so the areas eligible for support had much higher aid intensities than reported here.

Table 4: Annual Aid intensity per category of region, EUR per head (at 2011 constant prices), 1989-2020

	1989-1993	1994-1999	2000-2004	2004-2006	2007-2013	2014-2020
Less developed *	110	210	259	179	188	180
Transition		49	67	67	101	66
More developed	13	32	29	29	21	22
Cohesion Fund ***	36	54	48	49	60	62
Total **	42	86	89	83	100	84
EU	EU-12	EU-15	EU-15	EU-25	EU-27	EU-28

Source: Structural Fund Reports, SFC and REGIO calculations. Annual deflator of 2%

* ERDF+ESF, ** ERDF+ESF+CF, *** In the period 2007-2013, Spain received phasing-out support. The aid intensity excluding Spain was 76.

Box: Allocations and payments

In this report, Cohesion Policy funding is measured in two ways:

- by allocations
- by expenditure or payments

Allocations are the amounts of financial support from the ERDF, ESF and Cohesion Fund that are allocated to Operational Programmes. Here, they have been transformed into 2011 constant prices using a standard deflator of 2% a year and are expressed in terms of annual aid intensities by relating the amounts to population in each programming period from 1989 onwards in the different countries and by category of region.

Expenditure relates to the payments made by the Commission to the Member States from the ERDF, ESF and Cohesion Fund to reimburse for spending on co-financed projects. The figures are then expressed in relation to GNI.

These two data sources are difficult to compare. Allocations precede the actual expenditure carried out on projects. Payments are only made after eligible expenditure has been declared to the Commission and assessed as being reimbursable. Allocations are in fixed prices while payments are in current prices. In addition, not all allocations are necessarily spent in the time allowed – within two years of the period formally ending. Some allocations might be rolled over into the next period, others withdrawn if Member States are unable to comply with the rules governing expenditure.

2.4. The European Structural Investment Funds and Cohesion Policy

The funding allocation to the five ESI funds has grown since 1989-1993 period as the EU expanded and the challenges facing the ESI funds intensified from EUR 75 billion to EUR 460 billion in the 2007-2013 period.

The total for the 2014-2020 period is lower at EUR 400 billion. The total and the distribution between the funds may still change as MS can shift funding from the first pillar of CAP to EAFRD (or vice versa) and from ERDF to ESF or depending on their investment needs and priorities.

The way this funding is coordinated has evolved over time. Until the 2000-2006 period, funding from EAFRD and EMFF was often combined with ERDF and ESF funding in single programmes. In the 2007-2013 period, EAFRD and EMFF funded separate programmes to stimulate rural development and the development of areas dependent on fisheries.

In the new programming period, the European Structural Investment Funds have once again been included under the same umbrella. The partnership agreements cover all ESI funds and the common rules facilitate a more coordinated implementation.

Table 5 Allocation per fund (EUR billion, at 2011 prices), 1989-2020

	ESF	ERDF	CF	EAFRD	EMFF	Total
1989-1993	24	39	2.2	10		75
1994-1999	67	119	20	35	4.1	245
2000-2006	79	150	32	45	4.6	311
2007-2013	78	205	71	102	4.4	460
2014-2020	71	181	56	85	6.6	400

Note that the funds are identified using their current name and that the EAFRD and EMFF had a different name in earlier periods. Cohesion Fund was only launched in 1992 and in operation in 1993.

2.4.1. The Common Agricultural Policy (CAP) and rural development

The first generation of rural development activities under the Common Agricultural Policy (CAP) was introduced in the 1970s in the form of measures to support structural change in agriculture and to help maintain farming in areas affected by natural constraints. Other measures followed, including support for young farmers setting up and investment in processing and marketing of agricultural products.

At the beginning of the 1990s, the policy was extended to non-agricultural, territorially oriented, activities, which were clearly linked to the economic and social development of rural areas and enabled farmers to diversify into other activities. The introduction of support for LEADER, a ‘bottom-up’ approach to implementing local development strategies, was supplemented by measures help maintain the cultural and natural heritage and to improve local infrastructure and basic services in rural areas.

Under the Agenda 2000 reform, rural development policy was established as the second pillar of the CAP with the aim of contributing to the economic, social and cultural development of rural areas in the EU.

For the period 2007-2013, a more strategic approach was introduced in respect of rural development programmes. The budget for rural development totalled EUR 96.3 billion including amounts resulting from transfers from pillar I of the CAP to rural development (under the ‘modulation system).

Although cohesion is not an explicit policy goal of the CAP, it is intended to take account of '*the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions*[3]. Its aim is to ensure economic and social progress in agriculture and rural areas while providing support for the supply of reasonably-priced food to EU consumers.

In addition, the regulation governing the Agricultural Fund for Rural Development (EAFRD) links rural development to economic and social cohesion, specifying that

[3] TFEU Article 39(2)

the EAFRD shall contribute to the Europe 2020 Strategy by promoting sustainable rural development throughout the EU in a manner that complements the other instruments of the CAP, Cohesion Policy and the Common Fisheries Policy. [4]

Economic cohesion

At EU level, the combined primary sectors - agriculture, forestry and fishing –and food represent a sizable part of the EU economy accounting for employment of 16.5 million people (7.3% of the total) and 3.7% of gross value-added (GVA) in 2011 . These figures mask significant variations across countries as the agri-food sector is more important in the EU-12, particularly in respect of employment, , and in rural areas.

The CAP contributes to economic cohesion through its two pillars. Direct payments help to underpin the viability of farming across the EU, and the communities which depend on it, by providing a reliable source of income for producers and making them less vulnerable to fluctuations in prices. In 2011, expenditure on the first pillar of the CAP amounted to EUR 44.0 billion[5], by far the biggest proportion going on direct aids to farmers of: EUR 40.2 billion[6]. Expenditure on rural development, on the other hand, is intended to support the economic viability of rural areas through financing investment, the transfer of know-how, and measures fostering innovation.

Social Cohesion

The CAP also contributes to furthering social cohesion, mainly through support for rural development. Around a third of all those at risk of poverty in the EU live in thinly populated (rural) areas, so e rural development policy is important for social inclusion. In addition to measures supporting employment both in agriculture and other sectors, support is also provided to assist the development of basic services and infrastructure. Consequently, by the end of 2012, some 127 600 young farmers had received support to start up new activities and some 34 000 villages had been renovated.

The support can also be used by Member States to help integrate disadvantaged groups, such as Roma by assisting the setting-up and development of non-agricultural businesses, job creation, investment in small scale infrastructure and local basic services, including through LEADER local development strategies.

Territorial cohesion

In addition to its rural development ‘pillar’, the CAP has a strong territorial dimension under its first pillar through the support it gives to farmers who perform an important land management function and through the fact that agriculture, forestry and the agri-food sector still make a significant contribution to the socio-

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4 Article 2 of Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005, OJ L 347, p. 487.

5 Source: European Commission, 2011 *EAGF Financial Report*.

6 These are largely ‘decoupled’ in the sense that direct payments support farmer incomes without being related to production ,in return for them respecting standards of food safety, environmental protection and animal welfare and keeping the land in good condition.

economic development of rural areas. As regards the rural development pillar, the policy includes economic, social and environmental dimensions based on a territorial approach and can help to maintain a sustainable balance between urban and rural areas.

Just over 32% of EU support for rural development was allocated to Convergence regions in the 2007-2013 period and by June 2013, Over EUR 35.3 billion of the EAFRD had been spent in these, almost EUR 15.2 billion on measures to improve the environment and countryside, nearly EUR 12.9 billion on improving the competitiveness of agriculture and forestry, EUR 5.1 billion on improving the quality of life in rural areas and encouraging diversification of the rural economy and almost EUR 1.2 billion on LEADER.

The new CAP reform and its contribution to cohesion

The CAP continues to be divided into two pillars in the 2014-2020. The total budget amounts to EUR 252 billion for direct payments (pillar I) and EUR 95 billion for rural development (pillar II). The direct payment system includes new elements that are intended to increase the contribution of CAP to Cohesion Policy, such as through a more balanced, transparent and fairer distribution of direct payments between farmers and between countries. Direct payments will, moreover, be more targeted, by, for example, providing an additional payment to all EU young farmers and potentially to specific regions with natural constraints.

An important change, which is directly linked to EU cohesion objectives concerns the new rural development framework, in which rural development policy is partly harmonised and coordinated with other ESI funds with the aim of improving the chances of achieving the Europe 2020 objectives..

In the new programming period, Member States are formulating their rural development strategies on the basis of 6 priorities, one of which, in line with cohesion objectives, is the '*promotion of social inclusion, poverty reduction and economic development of rural areas'*. In addition, innovation, safeguarding the environment and adapting to climate change are cross-cutting objectives which all programmes are pursuing.

This stronger strategic focus should enable policy to be better targeted on areas and groups of people in need, so improving its effect on cohesion.

2.4.2. The Common Fisheries Policy and Integrated Maritime Policy

The European Maritime Fisheries Fund (EMFF) aims to ensure that fishing is carried out in a sustainable and efficient way and that the fisheries and aquaculture industry is both economically viable and competitive, providing a decent standard of living for those who depend on it. The fund was set up in 1994 and was initially called the Financial Instrument for Fisheries Guidance (FIFG), becoming the European Fisheries Fund in 2007.

The European Maritime and Fisheries Fund (EMFF) provide financial support for the implementation of the Common Fisheries Policy. The first three pillars of the Fund focus mainly on helping the EU fishing fleet and related sectors, such as aquaculture, inland fishing and the processing of the products produced, to adapt to change.

The fourth pillar of the EFF provides support for the development of coastal areas dependent on fisheries in order to ensure their long-term economic viability. Accordingly, the EMFF helps to tackle the socio-economic disparities of coastal communities with a high dependence on fisheries, which have gradually declined in recent years because of over-fishing and increased global competition.

In the 2007-2013 period the fourth pillar provided EUR 0.6 billion support to the development of coastal areas dependent on fisheries so as to ensure their long-term viability. In 2010, there were 93 coastal NUTS-3 regions where employment in fishing accounted for over 5% of jobs and 25 regions where the gross value-added generated by fishing accounted for over 10% of the total. The extent of dependency is declining in terms of both jobs and value-added as fishing is displaced by others activities. The EFF provides support to projects that add value to fisheries and aquaculture products, create or maintain jobs, encourage entrepreneurship and innovation and improve the quality of the coastal environment.

In the 2007-2013 period, Convergence regions received around 75% of the EUR 4.4 billion funding, allocated on the basis of the historical share of support for fisheries in cohesion policy. For other regions, the allocation took account of sector-specific criteria, such as employment in the sector and the structural adjustment needed.

The 2014-2020 period relies exclusively on sector-specific criteria for distributing the budget with the aim of ensuring a more balanced distribution of funding and avoid absorption problems in Convergence regions where fisheries are less important.

One important feature of the ESI Funds that is likely to play an important role in coastal communities is Community-led Local Development, which will allow local communities to combine the funds for supporting fisheries-oriented action with broader strategies to diversify the economies of areas still dependent on fishing.

The Integrated Maritime Policy, launched in 2012, is aimed at providing a more coherent approach to maritime issues. It calls for increased coordination between different policy areas while safeguarding biodiversity and protecting the marine environment. A central theme is economic growth based on various maritime sectors, including blue energy (such as off-shore wind power), aquaculture, maritime, coastal and cruise-ship tourism, marine mineral resources and blue biotechnology, sectors which are interdependent and rely on common skills and shared infrastructure such as ports and electricity distribution networks. The Policy also covers horizontal measures such as maritime spatial planning, integrated surveillance and marine know-how which can improve the management of oceans. In March 2013, the Commission proposed legislation to create a common framework for maritime spatial planning. Once in place, this can provide businesses with the legal certainty they need to invest.

The European Globalisation Adjustment Fund (EGF)

The European Globalisation Adjustment Fund was set up in 2006 to provide support to workers losing lost their jobs because of globalisation. More recently, it has been extended to workers made redundant as a result of the crisis. Workers are eligible for support when a large company closes down, a sector is affected by trade developments or production is moved abroad. The EGF cannot be used to keep companies in business or to help them modernise or restructure.

In general, EGF support can be requested only when more than 1,000 workers are made redundant by a single company or in a particular sector concentrated in a region or in a few neighbouring regions. Between 2007 and 2013, 128 requests for support from the EGF were received and almost EUR 0.5 billion was paid out to help close to 100,000 workers.

The projects supported consist mainly of those aimed at helping workers to find a new job or set up in business for themselves, by providing career advice, mentoring and coaching, training, mobility and relocation allowances and business advice.

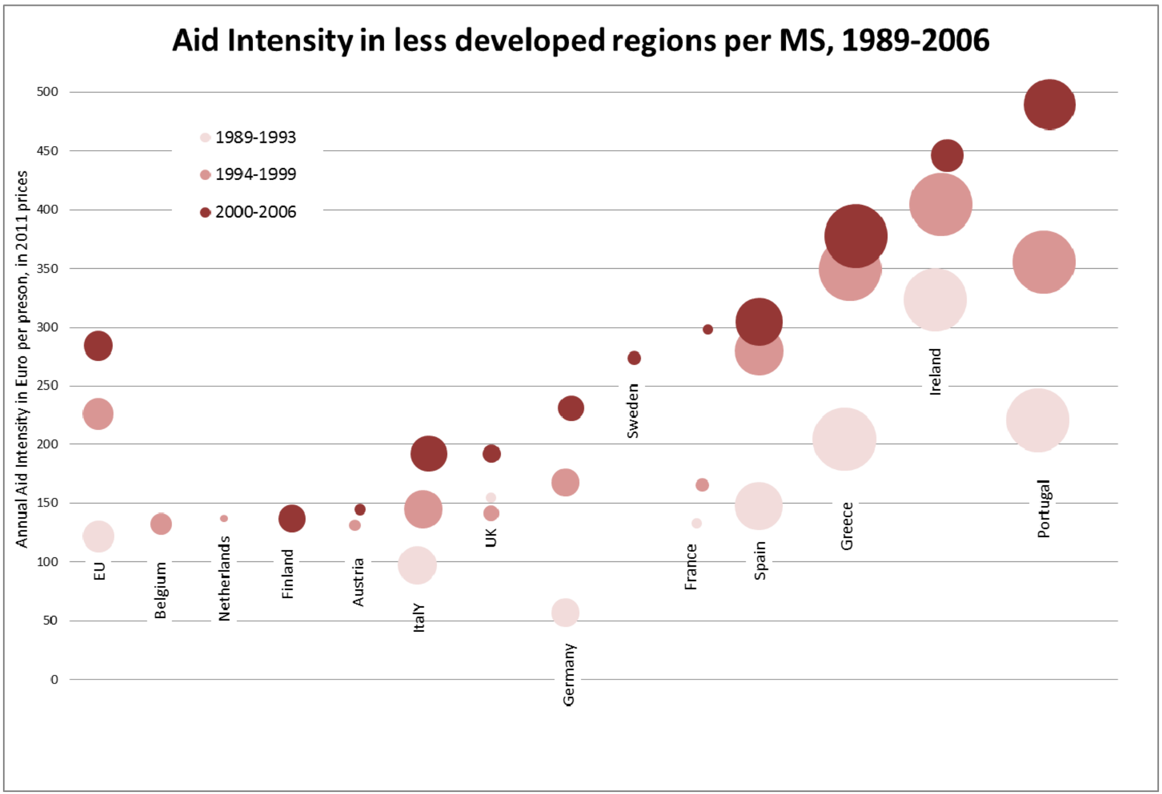
For the 2014-2020 period, the EGF has a maximum budget of €150 million a year, double that of the previous period, and a co-financing rate of up to 60%. The self-employed and workers on fixed-term contracts made redundant are also eligible for support. In addition, between 2014 and 2017, in regions with high youth unemployment, the young unemployed can receive support in equal numbers to workers being assisted by the ESG in the normal way.

2.5. Aid intensities in less developed regions rose up to 2000-2006 and have since declined

Aid intensities in less developed regions in the different Member States mirror the trend at EU level. Between 1989 and 2006, they increased in all Member States (see Figure 78, where the size of bubbles shows the share of national population in less developed regions). Belgium and the Netherlands each had one less developed region in 1994-1999, which became Transition regions in 2000-2006. In France and UK, the proportion of population in less developed regions was very small throughout the period. In Greece, Portugal and Ireland, all the population lived in less developed region in the 1989-1993 period, but by 2000-2006, the proportion in Ireland had fallen to 27% and in Portugal to 66%, though in Greece, it remained at 100%.

Aid intensity was highest over this period in the least developed among the regions covered. In 2000-2006, it averaged between EUR 380 and EUR 490 a year in Convergence regions in Ireland, Portugal and Greece, but it was below EUR 150 a year in Austria and Finland.

Figure 5: Aid intensity in less developed regions by Member State, 1989-2006



Source: Annexes of 1st Annual report on the implementation of the reform of the structural funds for the period 1989-1993; Financial Annexes (volume II) of 11th Annual Report of the Structural Funds (1999), DG BUDG, SFC and DG REGIO calculations

Note Aid intensities include ESF, ERDF and Cohesion Fund. Cohesion Fund aid intensity was assumed to be the same in all regions of a Member State receiving support.

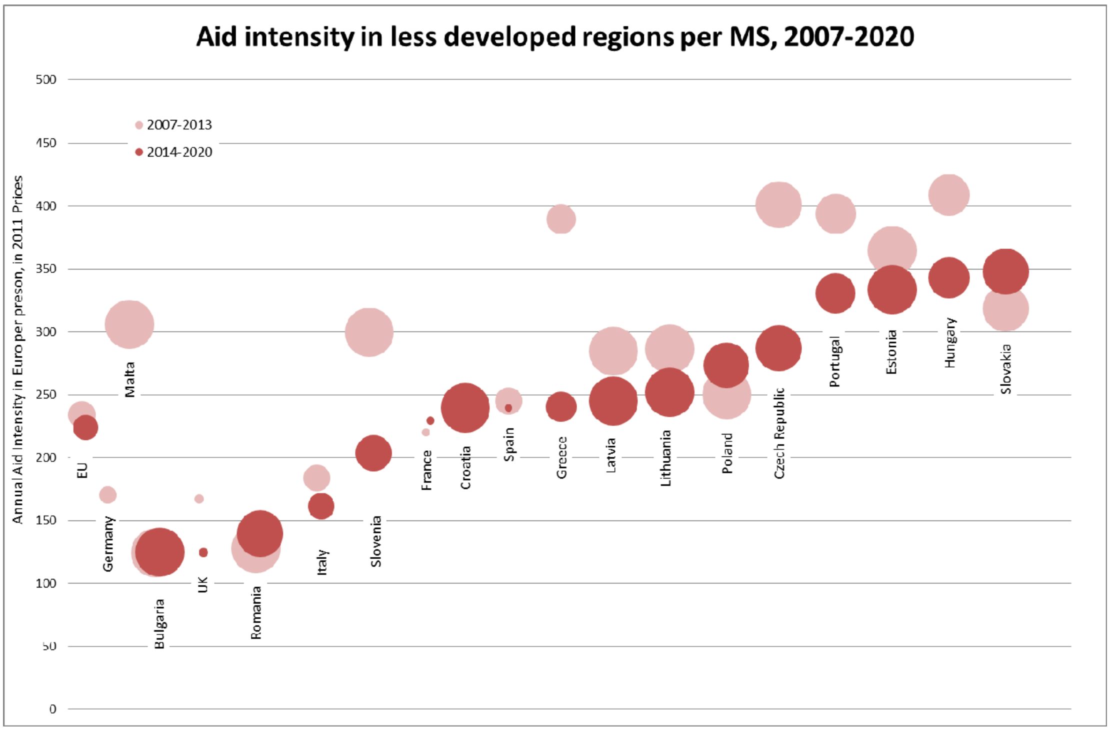
Average aid intensities in less developed regions at the EU level are lower in the 2007-2013 and 2014-2020 periods than previously (around EUR 230 a year compared with EUR 284 in the EU-15 in the 2000-2006 period).

The aid intensities in less developed regions in the EU-27 show the influence of limiting, or capping, funding allocations to a fixed share of GDP which varies between countries, in part according to their level of development but also taking account of other factors. Capping was first introduced in the 2000-2006 period and remains in force. The purpose is to avoid financial support leading to overheating of the recipient economy as well as to ensure that Member States can absorb the resources concerned and allocate them effectively to sufficiently mature projects.

As a result, aid intensities are no longer highest in the least developed regions (see Figure 79). They are lowest, for example, in Bulgaria and Romania as well as the UK. Aid intensities might increase as a country develops and becomes more able to use funding effectively (as in Slovakia or Poland) but decline after development reaches a certain point (as in the Czech Republic).

In Slovenia, Poland and Romania, the capital city region is no longer in the less developed category in the 2014-2020 period, while in Slovakia, the Czech Republic, Hungary and Portugal, it was not in this category in 2007-2013 as well.

Figure 6: Aid intensity in less developed regions by Member State, 2007-2013 and 2014-2020



Source: Annexes of 1st Annual report on the implementation of the reform of the structural funds for the period 1989-1993; Financial Annexes (volume II) of 11th Annual Report of the Structural Funds (1999), DG BUDG, SFC and DG REGIO calculations

Note Aid intensities include ESF, ERDF and Cohesion Fund. Cohesion Fund aid intensity was assumed to be the same in all regions of a Member State receiving support.

Box on Outermost regions

There are 8 'outermost' regions in the EU, which are all located a long way from the respective countries to which they belong in the Atlantic Ocean, the Caribbean, the Indian Ocean and South America. Altogether around 4.6 million people live in these regions. Their specific situation was first recognised in a declaration attached to the Maastricht treaty in 1992 and subsequently in an article in the Amsterdam and Lisbon Treaties.

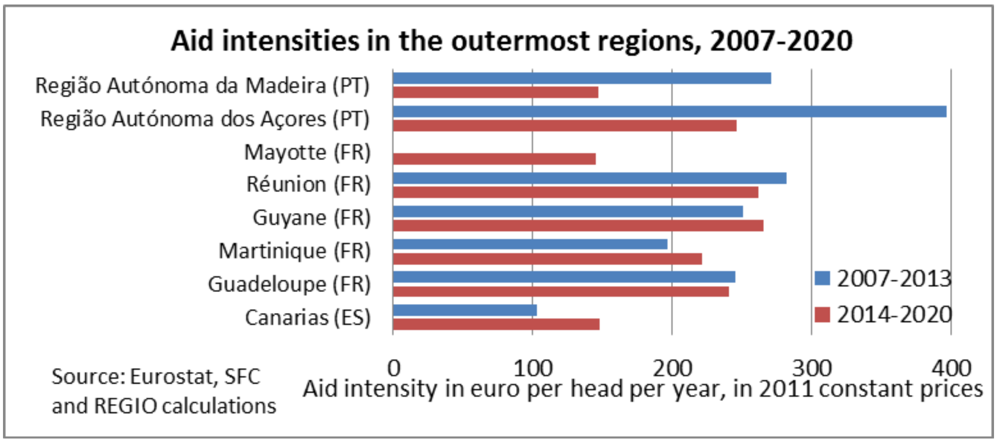
All the regions have relatively high population growth, reinforced, in most of them, by net inward migration. Except for Madeira, all of them to have a level of GDP per head below the EU average, Mayotte (situated between Madagascar and the African coast with a population of around 213,000), which joined the outermost regions on 1 January 2014, having the lowest level at around a quarter of the EU average.

Unemployment in all of them is significantly higher than in the rest of the EU, Canarias and Rèunion having the highest rates at 33% and 28%, respectively, in 2012, Madeira and Açores having the lowest rates, at 15% and 17%, respectively.

In the 2014-2020 period, 6 of the 8 have been designated as 'less developed' regions for funding purposes, while Canarias is in the Transition category and Madeira in the more developed one.

The average aid intensity for the regions in 2014-2020 is much the same as in 2007-2013 at a little over EUR 190 per person a year (at 2011 constant prices). The level in Madeira and Açores, however, has been reduced significantly because of their higher levels of GDP per head. It has also been reduced in two of the 5 French regions (Réunion and Guadeloupe), while it has risen in Guyane and Martinique. In Canarias, it has been increased substantially from a relatively low level to one similar to that in Mayotte, the fifth French region.

Figure 7: Aid intensities in the outermost regions, 2007-2020



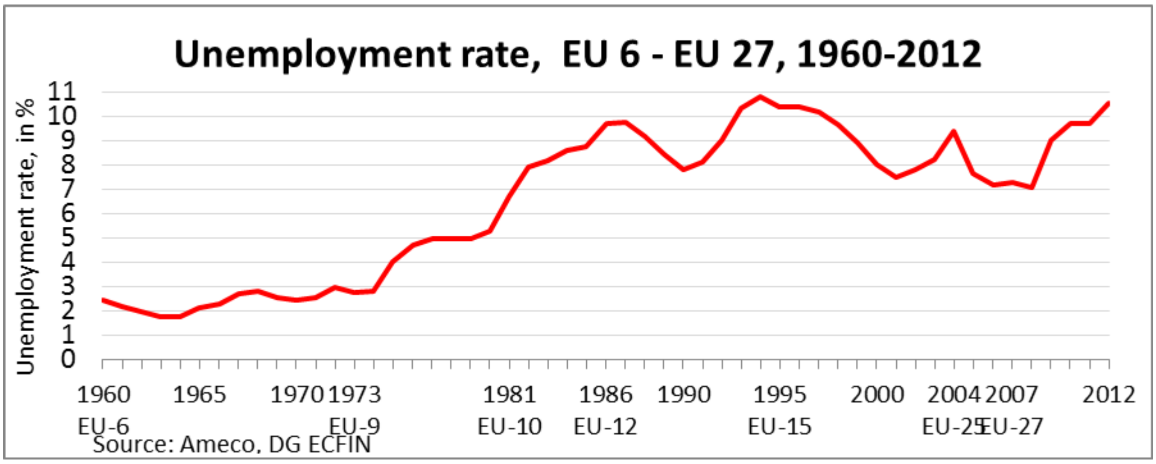
3. HOW HAVE THE GOALS CHANGED OVER TIME?

The ambition to reduce the development gaps between regions dates back to the foundation of the European Economic Community in 1957 with the Treaty of Rome, which states: "*the Community shall aim at reducing the disparities between the levels of development of the various regions"*. This goal is still at the heart of Cohesion Policy. However, the Union of today is radically different than the one of 57 years ago. The various waves of enlargement have introduced new issues and new challenges as well as increasing the scale of some of the initial ones. The interpretation of the goal has also changed and is still evolving.

3.1. The initial focus was on training and mobility

In the 1960s, the European Social Fund (ESF) tackled regional development gaps by providing support for the geographical and occupational mobility of workers. It helped workers in sectors that were modernising or restructuring by providing them with short-term retraining allowances and helped people, particularly those out of work, to relocate and seek jobs elsewhere through resettlement grants. In the 1960s, however, unemployment rates were low (see Figure 81) and most people who became unemployed quickly found a new job.

Figure 8: Unemployment rate, EU-6 EU-27, 1960-2012



3.2. The 1970s and 1980s saw structural unemployment and rapid changes in agriculture and manufacturing

In the first part of the 1970s, there was a growing concern about job availability and the economic prospects of less developed regions. While unemployment averaged less than 3% in the EU during the 1960s, it increased from the mid-1970s on to reach 10% in the mid-1980s with over 30 NUTS-3 regions having rates above 20%. This was a reflection of a steep decline of employment in agriculture and manufacturing in many regions. As a result, the policy focus shifted to supporting regions with a large agricultural sector, those experiencing industrial decline and/or those with high structural unemployment. A high level of youth unemployment led to measures being targeted in particular on young people.

3.3. The countries joining the EU in the 1980s and 2000s lacked key infrastructure

The successive waves of EU enlargement have altered the challenges for Cohesion Policy to tackle. While some of the acceding countries were highly developed and very similar to existing Member States, others were much less so in territorial as well economic and social terms.

In 1973, the UK and Denmark had levels of economic development similar to the six original Member States (see Figure 82). In UK, GDP per head in PPS terms was 93% of the then EU average, in Denmark it was 7% above the average. Unemployment was also lower than the average in both cases. Ireland, on the other hand, was much less developed with a GDP per head of only 60% of the EU-6 average and an unemployment rate twice the average.

When Greece joined in 1981, it had a GDP per head of 85% of the EU average and a lower unemployment rate. Portugal and Spain were both considerably less developed than the existing Member States when they joined in 1986, GDP per head in the first being only 50% of the EU average and in the second, 69%. Spain too had an unemployment rate of 17%, almost twice the EU average at the time. In all three countries, infrastructure was either lacking or of poor quality.

The 1995, Sweden and Austria both had above average levels of GDP per head and below average unemployment, while in Finland, GDP per head was not far below the EU average (90%) but the unemployment rate was 15%, well above the EU average at the time (10%). Though the enlargement did not pose new challenges for Cohesion policy, it did increase the territorial diversity of the EU adding more mountainous areas and sparsely populated areas in the far north.

The 2004 enlargement posed a far greater challenge in that the 10 new Member States had a GDP per head of between 40% and 76% of the EU average. Five of them had unemployment rates above the EU average – in the case of Poland and Slovakia, double the average. The standard of infrastructure in all the countries was also far lower than in most of the existing Member States (see Chapter 2).

When Romania and Bulgaria joined in 2007, they were the least developed countries to enter the Union, with GDP per head of less than 40% of the EU average and infrastructure of a far lower standard than in the rest of the EU.

In 2013, Croatia joined the EU with a GDP per head of 61% of the EU average and an unemployment rate of 16%, substantially higher than the average of 10%.

Figure 9: GDP per head per enlargement, 1975-2013

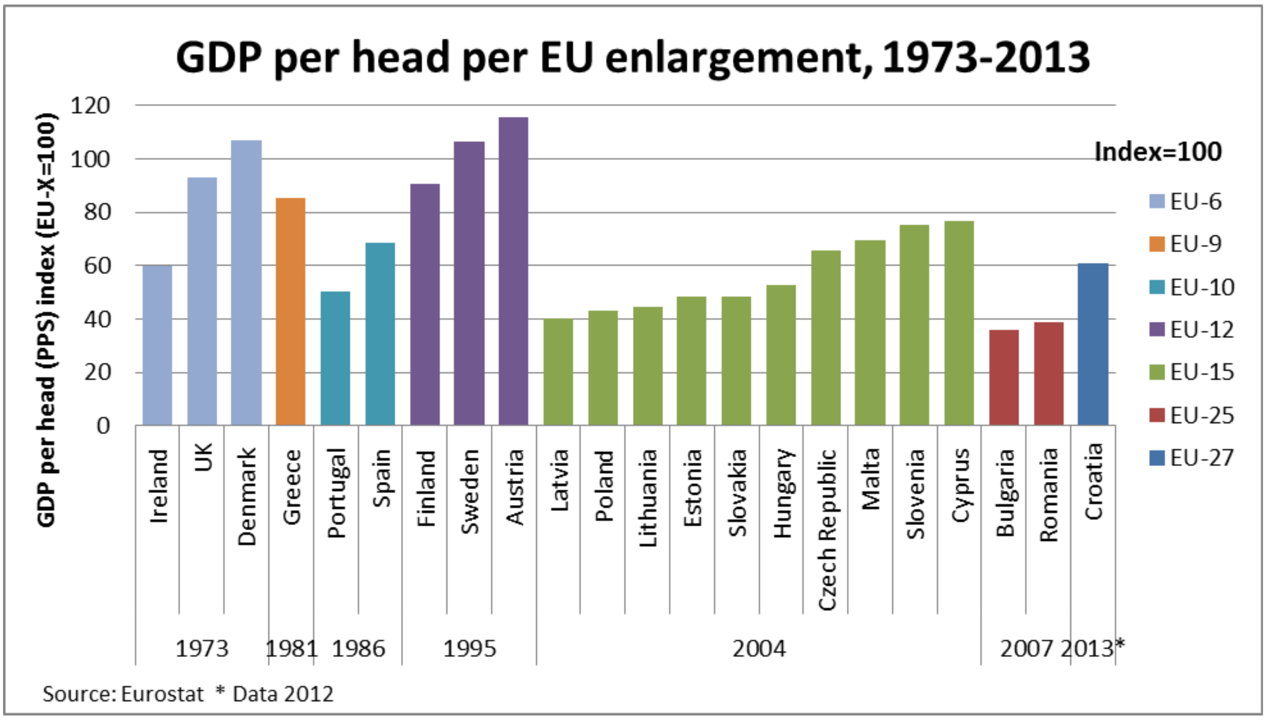
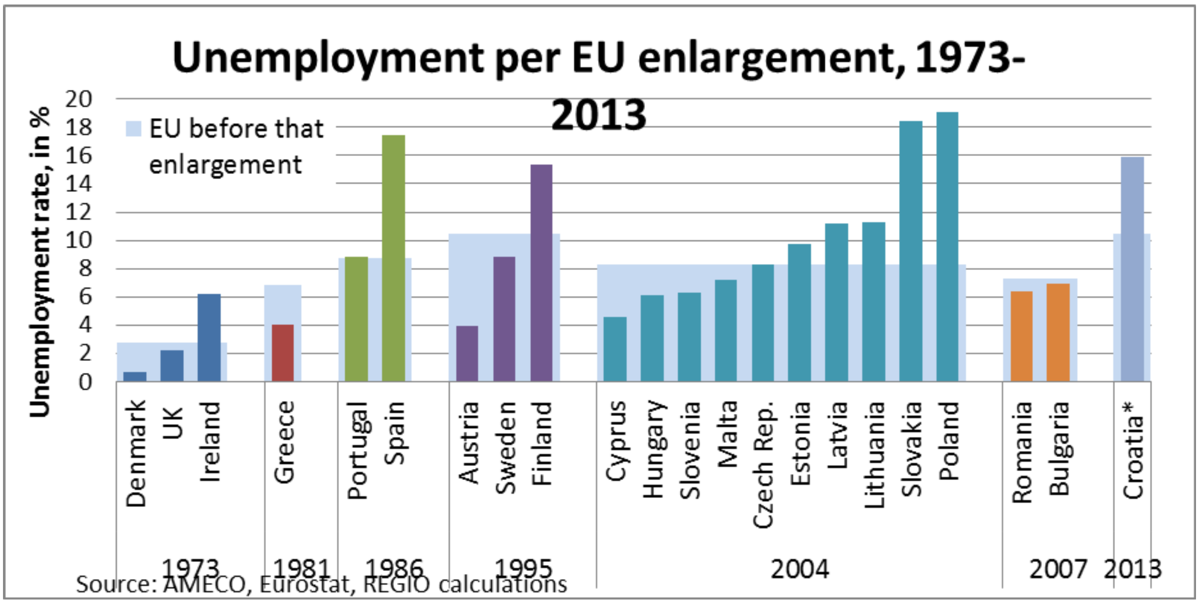


Figure 10: Unemployment per EU enlargement, 1973-2013



3.4. Improving transport and environmental infrastructure

With the creation of the Cohesion Fund in 1992, improving transport and environmental infrastructure became explicit goals of Cohesion Policy.

The Cohesion Fund was set up as an accompanying measure to the establishment of the Single Market. It was intended to ensure that all Member States, including those which were on the periphery of the EU and were lagging behind in terms of economic development, were able to share in the growth stemming from the removal of barriers to competition in the markets concerned. Moreover, as the Maastricht criteria limited public debt and public deficits, it was harder than before for countries with poor infrastructure endowment gap to catch up with the rest of the EU.

The support provided was, therefore, aimed at helping the countries to do this by contributing to the cost of extending and improving their transport networks and environmental infrastructure and so remove obstacles to their economic and social development. At the same time, the investment concerned was also designed to further the Single Market project – and ultimately Economic and Monetary Union – by improving transport links with the rest of the EU and ensuring a minimum standard of infrastructure across the EU.

Unlike the ERDF, the focus from the start was on the situation at national rather than at regional level and on the gap between the lower income countries and the rest of the EU rather than on disparities between regions. Accordingly, eligibility for receipt of Cohesion Fund support was couched in national terms – having a Gross National Income (GNI) per head of less than 90% of the EU average.

In practice, the Cohesion Fund has helped lower income countries to comply with environmental Directives relating to clean drinking water, urban wastewater and solid waste disposal. The goal of facilitating compliance with EU environmental Directives in Member States with a GNI below 90% extends beyond the goal of reducing regional disparities in development and is, accordingly, an additional objective of Cohesion policy.

The concentration of support on transport and environmental infrastructure has remained since the creation of the Cohesion Fund. The characteristics of the countries receiving support, however, have changed markedly as indicated above in terms of both the level of economic development and need for infrastructure.

3.5. The Lisbon and Gothenburg Agenda

The Lisbon Strategy, adopted in 2000, was aimed at boosting the competitiveness and knowledge-intensity of the EU economy by among other thing increasing investment in innovation. The strategy was re-launched in 2005 with a stronger focus on growth and jobs and the introduction of national reform programmes to ensure greater coherence and greater ownership of the strategy.

The Gothenburg Strategy adopted in 2001 focussed on sustainable development, i.e. meeting the needs of the present without compromising the ability of future generations to meet their own needs. This was followed by a more comprehensive Sustainable Development Strategy for an enlarged EU in 2006.

The link between Cohesion Policy and the Lisbon and Sustainable Development Strategies was strengthened for the 2007-2013 programming period. New 'earmarking' requirements ensured that a large part of Cohesion Policy funding went to support projects that contributed to the two strategies, marking a further shift towards aligning Cohesion Policy with the overall policy agenda of the EU.

The primary goal of reducing economic disparities, however, remained intact in the process. The bulk of funding continued to go to less developed regions (see above) and the earmarking requirements were less stringent for these than for more developed regions.

3.6. Europe 2020, poverty reduction, climate change mitigation and beyond GDP

Compared to the Lisbon agenda, Europe 2020 added to two new elements to the political agenda of the EU, poverty reduction (see Chapter 3) and a stronger emphasis on sustainability (see Chapter 4). This has led to a change in the goals of Cohesion Policy (see Chapter 8) and to the way policy is implemented, with a greater stress on action aimed at achieving multiple goals.

This strategy has five headline targets set at the EU and the national level, yet these issues also differ within Member States. Each of these headline targets follows a different logic spatial logic.

In some case, the spatial concentration makes matters worse. For example, the concentration of poverty and social exclusion in small areas has strong negative externalities. In other cases, the spatial concentration can be positive, in the case of innovation, or neutral, in the case of GHG emissions or renewable energy. In the case of education the impact of spatial concentration is mixed. A high concentration of early school leavers is likely to generate negative externalities, but a concentration of tertiary educated generates positive externalities. The latter is also impossible to avoid as many tertiary educated will move to large cities in search of more interesting job opportunities.

The consequences of the spatial concentration of high (or low) employment rates are ambiguous. The clustering of high employment rates may lead to labour and skill shortages which can only be resolved through people moving long distances. The clustering of low employment rates is likely to depress wages and have negative externalities. Yet the inevitable differences in size and economic structure of labour market areas and in labour market regulations mean that identical employment rates are unrealistic. In short, both large disparities in regional employment rates and zero disparities are likely to produce negative externalities. The optimal situation is to have limited employment rate disparities avoiding both depressed and overheated labour market areas.

The way public policies can tackle these issues also changes from one area to another. Reducing poverty requires a different approach in areas with a high poverty rate than in one with an average rate. Reducing greenhouse gas emissions efficiently needs different policies in urban areas than in rural ones. Policies to boost innovation or enhance education should take into account the current and the potential economic specialisation of the region or city.

The differences between the EU targets and the national targets reflect both a sense of realism, an understanding of the externalities of concentration and likely future developments.

For example, the 2020 index based on the distance to the EU targets for smart and inclusive growth (Map 80) and the 2020 index based on the national targets[7] (Map 81) show that overall, the distance to EU targets varies more with wide distances for the less developed Member States. The average distance to the EU target is, therefore, relatively wider for Greece, Romania, Bulgaria, Hungary, Croatia, Poland and Italy.

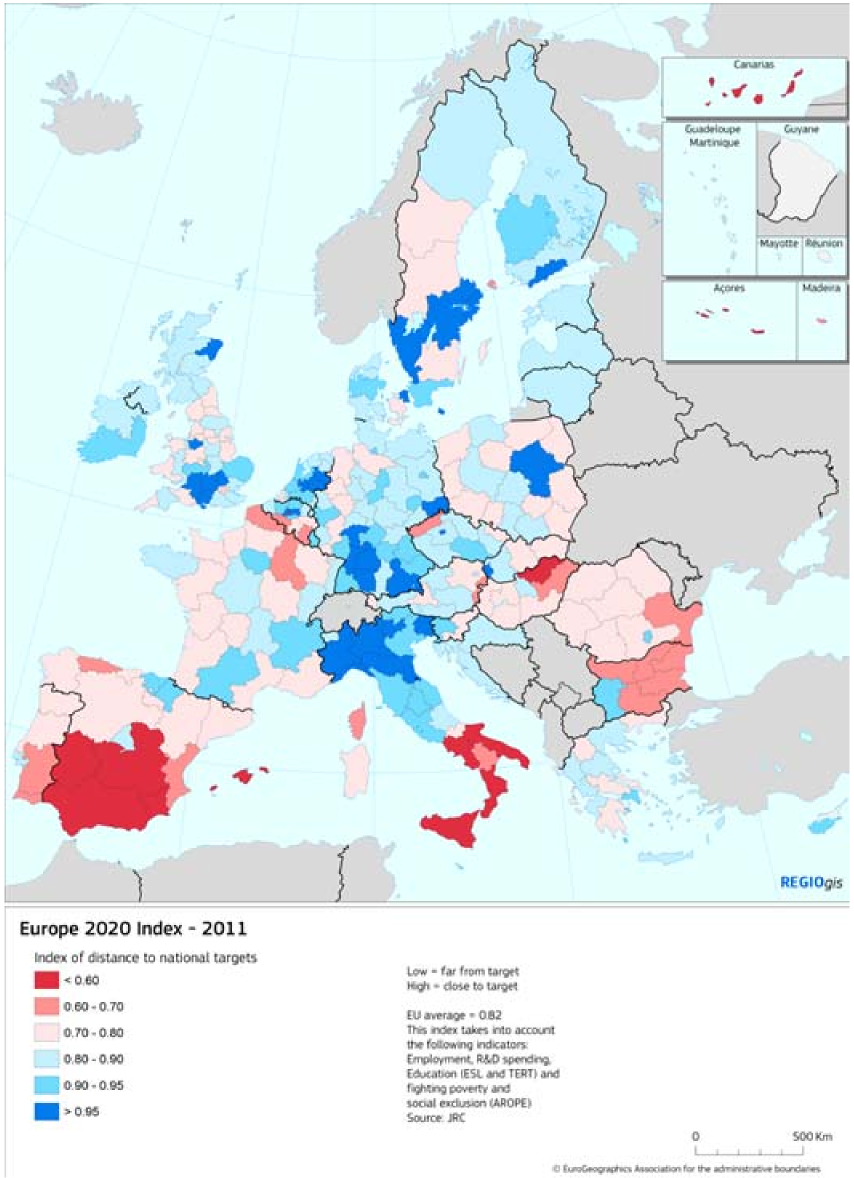
The distance to national targets tends to be a little smaller as Member States have opted to aim for a lower and more realistic target for R&D expenditure if their starting level is low, which is the case in most less developed countries. This suggests both a sense of realism and that spatial concentration of R&D can be beneficial.

For the employment, education and poverty or social exclusion national targets, however, Member States with the lowest rates have often opted for ambitious targets, which implies that a substantial effort is needed to achieve them. This shows that lagging Member States are eager to catch up with the rest of the EU and recognise the potential negative externalities of the spatial concentration of low employment rates, low educational attainment levels and high rates of poverty or social exclusion.

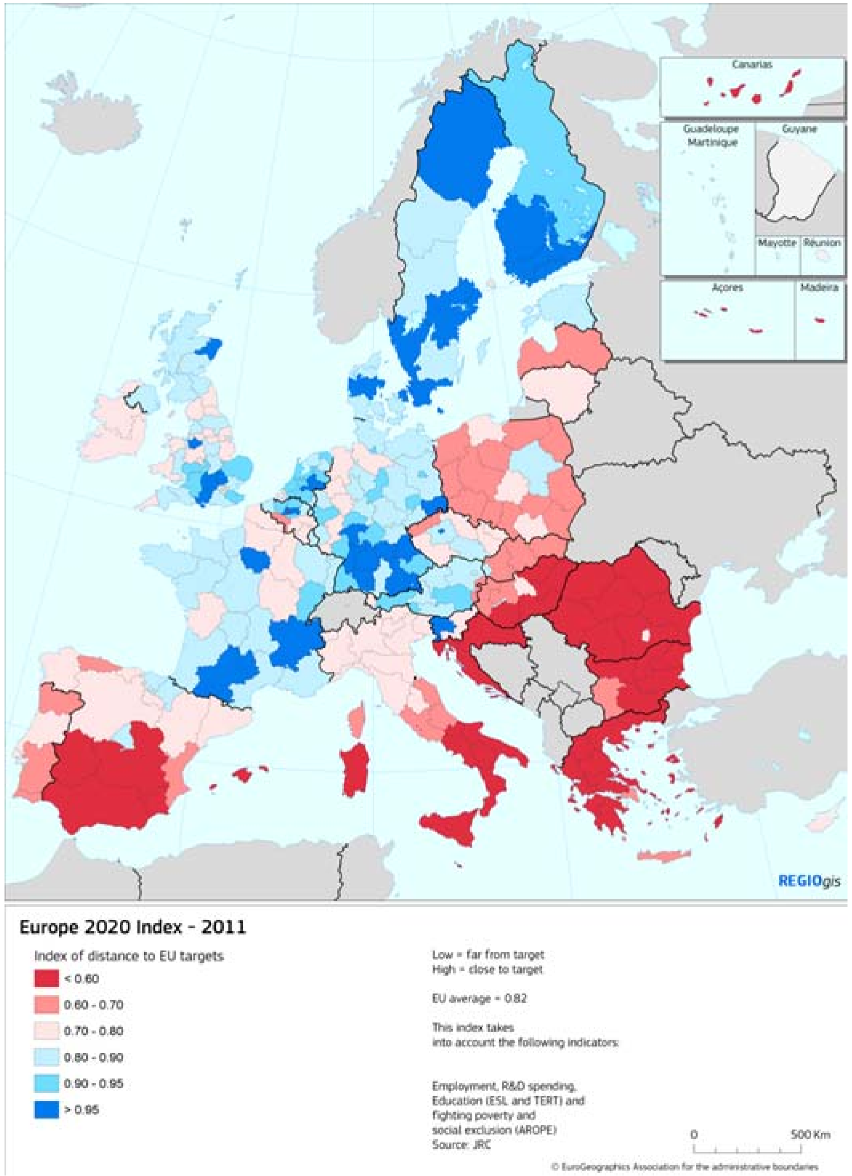
The national targets for GHG emissions in the effort-sharing mechanism involve a reduction for the more developed Member States which have far higher emission levels per head than less developed Member States which are allowed a moderate increase. This is a fairer distribution of effort than specifying equal cutbacks which recognises that it does not matter where GHG emissions occur.

[7] For MS that did not select a national target for an indicator, a target was imputed based on the targets of MS with a similar rate in 2009. For more information see (Athanasoglou and Dijkstra 2014).

Map 2 Europe 2020 index, 2011 distance to EU targets



Map 3 Europe 2020 index, 2011 distance to national targets



Box on Committee of the Regions and the territorial dimension of Europe 2020 and other EU policies

According to the Committee of the Regions (CoR), a 'territorial dimension' should be included in the design and implementation of the Europe 2020 strategy. The targets should, at least partly, be defined at regional level and progress indicators should be established to enable regions to monitor their progress in achieving them.

In the Committee's view, giving regions and local authorities a stronger role in the conduct of Cohesion Policy and in implementing Europe 2020 would increase ownership and help to make public investment more effective, though it is recognised that to achieve this also requires a further improvement in their administrative capacity. The CoR also pleads for strengthening the long-term regional investment focus and making it more crisis-resistant.

The Committee's view is based on a series of 'works'[8] including a survey among Regional and Local authorities (LRAs), which found strong support for the Europe 2020 strategy among the 1000-plus respondents but in which many pointed to the lack of a strong territorial dimension in the strategy and of a clear role for LRAs. The LRAs indicated that they wanted to be more involved in all stages of the policy process and for cross-border interdependencies to be taken into account.

A large majority of LRAs responding stated that the targets should be regionally differentiated, but there was s no consensus on how this should be done. Three alternative ways were suggested - that targets should be the same as the national ones, higher for more advanced regions or higher for lagging ones. The CoR pleads on this basis for a mixed approach combining both national and regional target setting differentiated by indicator and by country.

Following the Commission's guidance on how territorial impact should be assessed, the Committee has adopted a Territorial Impact Assessment strategy, which aims to take account of the territorial impact of EU policies on LRAs and to increase the visibility of territorial impact assessment in the pre-legislative and the legislative process.

3.7. Beyond GDP: poverty, human development and well-being

The Treaty expresses the aim of reducing regional disparities in development but does not define, except in very broad terms, what kinds of disparity are being referred to. For many years, the focus was primarily on reducing disparities in GDP per head and unemployment rates. Over time, however, attention was extended to other aspects of development, such as environmental quality, sustainability, poverty and social exclusion.

[8] CoR works on the mid-term assessment of Europe 2020 have included 7 Flagship Initiative conferences and surveys as well as 4 specific workshops/seminars involving more than 1750 participants as well as a broad survey among local and regional authorities with more than 1000 respondents (http://portal.cor.europa.eu/europe2020/Pages/welcome.aspx).

This can be seen as part of a more general move towards better defining the way that development should be measured. The Stiglitz, Sen and Fitoussi report on the measurement of economic performance and social progress (2009) provides an excellent summary of what we know and what needs to happen next. It emphasises that indicators should not be confined to averages but cover their distribution across the population. For example, growth of average income can in some cases be a result of increases for a minority of the population and the majority might even experience a reduction. This can, therefore, give rise to a disconnect between what official statistics show and what most people experience, which tends to undermine their trust in the indicators concerned.

In parallel with the Stiglitz, Sen and Fitoussi report, the European Commission published the ‘GDP and beyond’ communication (EC 2009) in the same year. This identified five key ways of improving the measurement of progress, including complementing GDP with environmental and social indicators and the better reporting of distributional and inequality aspects.

In line with line, there has been a growing demand that Cohesion Policy should 'also move beyond GDP' (EC 2008). Already in the 2007-2013 period, many different measures of progress were taken into account in deciding the most appropriate priorities and the strategies for pursuing them (see EC 2010). For the 2014-2020 period, the European Commission has requested the World Bank and ESPON to produce detailed maps to identify the high-poverty areas on which policy should be targeted.

Nevertheless, the categorisation of regions and the Cohesion Policy funding they are eligible for in the period 2014-2020 were still based primarily on GDP. A prerequisite for considering other indicators which could be used to do this is a time series of reliable official statistics at regional level. This is one of the reasons for the Commission investing in better regional indicators of poverty and social exclusion as part of the EU Statistics on Income and Living Conditions (EU-SILC). The combination of a better territorial understanding of the EU (through regional and local typologies) and better measurement of income distribution, inequalities and poverty can provide an appropriate framework for Cohesion Policy to take explicit account of these aspects (see EC 2013).

3.8. What are the goals of Cohesion Policy?

The above overview of how the goals of Cohesion Policy have evolved over time can be summarised as follows. The reduction of regional disparities in development is and remains a central goal and most of the funding has consistently gone, and continues to go, to the least developed regions. The nature of regional disparities being tackled, however, has changed over the years. The initial focus on unemployment, industrial reconversion and the modernisation of agriculture has broadened to include disparities in innovation, education levels, environmental quality and poverty, as reflected in the division of funding between policy areas. The process of reinterpreting development disparities is ongoing and may lead in future to a stronger focus on disparities in overall well-being.

In addition to the goal of reducing regional disparities, Cohesion Policy has become more closely aligned with the overall policy agenda of the EU. In the 1990s, Cohesion Policy funding began to be used as well to improve the trans-European Transport Network in support of the Single Market and to improve and extend environmental infrastructure to help Member States to comply with EU environmental Directives. Although investment in transport infrastructure might have contributed to a reduction in economic disparities, investment in environmental infrastructure had little impact on the economic development of the regions concerned. Accordingly, improving environmental infrastructure can be seen as an additional goal of Cohesion Policy. The adoption of the Lisbon and Gothenburg strategies led to a stronger emphasis on innovation and sustainability and Europe 2020 has resulted in the goals of Cohesion Policy being extended to reducing poverty and social exclusion. The closer alignment of the policy to EU objectives has also influenced the way in which goals are pursued. For example, the measures adopted to boost smart growth have to take account of their impact on sustainability and inclusion.

The pursuit of EU-wide objectives is to a large extent compatible with reducing regional disparities, in the sense that, for example, supporting innovation or the sustainability of development in weaker regions is an important means of achieving this end.

The closer link to the overall EU political agenda also underlines the fact that Cohesion Policy is not exclusively focussed on the less developed regions but it supports investment in all regions which is aimed at furthering common EU objectives.

Box on Territorial Cohesion and the Lisbon Treaty of 2007

With the Lisbon Treaty in 2009, territorial cohesion was explicitly added to the goals of economic and social cohesion, though it was already an implicit objective of policy. Concluding the debate launched by the Green paper on territorial cohesion, the Fifth Cohesion Report summarised the changes introduced by the increased emphasis on territorial cohesion as reinforcing (1) the importance of access to services, (2) sustainable development, (3) functional geographies and (4) territorial analysis. Since 2010, the European Commission has taken action to address all four of these issues.

(1) Access to services

Both Europe 2020 and the Budget for 2014-2020 include specific action to improve digital and physical access to services. The Digital Agenda for Europe is aimed at ensuring that everyone in the EU has access to a fast broadband connection by 2020 and that one in two EU residents uses e-Government services by 2015.

Between 2014 and 2020, the Connecting Europe Facility will invest EUR 32 billion in transport infrastructure, EUR 9 billion in energy infrastructure and EUR 9 billion in broadband and digital services. This can help, for example, to reduce driving times to the nearest hospital, which may be located on the other side of a national border, increase the availability and reliability of energy networks and improve access to online services.

(2) Sustainable development

Sustainable growth is at the core of Europe 2020 and Cohesion Policy. In the 2014-2020 period, at least 20% of the ERDF in more developed regions and 6% in less developed region has to be invested in measures which improve energy efficiency and expand renewable energy supply.

(3) Functional geographies

Functional geography captures the spatial extent of a policy issue, for example, managing a river basin or a labour market area. Using functional geography can enhance the efficiency of public policies, even though it often calls for more coordination across administrative or political boundaries.

In the 2014-2020 period, a new measure has been introduced to facilitate the use of functional geography: integrated territorial investment which is intended to make it easier to implement an integrated strategy in a specific area, such as a metropolitan area or a cross-border area.

To obtain a better understanding of the functional geography dimension, the Commission has developed a number of new harmonised territorial definitions:

- Together with the OECD, it has created a new harmonised definition of a city and its commuting area, which shows that the latter, especially in large cities, often cross NUTS-2 boundaries and even national borders.

- Combining the approach used for the urban-rural regional typology developed in 2010 (EC 2010) and the new city definition, it has also defined a new local typology, the degree of urbanisation, which distinguishes rural areas, towns and suburbs, and cities. This allows for a better monitoring and understanding of the different policy issues facing all types of area, rural as well as urban.

To give these typologies more stability and visibility, the Commission intends to include these local and regional typologies in an annex to the NUTS regulation.

(4) Territorial analysis

A better understanding of different geographical areas across Europe can help to identify and select the right policy responses and to assess the impact of EU policies with a territorial dimension, as underlined by Member States in the Territorial Agenda and the Committee of the Regions.

Since 2010, the Commission has significantly improved the amount of sub-national data available from official statistics through Eurostat and from other sources with the help of the Joint Research Centre, Copernicus, the European Space Agency, ESPON, the European Environmental Agency, the World Bank, the OECD and external contractors. This has led to better data on a wide range of issues including poverty, well-being, health, air quality, innovation, access to public transport and the structure of settlements, but more remains to be done to complete the picture and provide more detail.

To support the assessment of territorial impacts[9], the European Commission has invested in better modelling capacity, and projections at sub-national level across the EU can now be generated by a new regional economic model RHOMOLO and a land use model LUISA, while projections of population and education levels have also been improved and updated.

4. THE ECONOMIC RATIONALE UNDERLYING THE POLICY HAS BECOME MORE INTEGRATED

Identifying and understanding the economic rationale for policy intervention can help to define the goals of Cohesion Policy more precisely and to identify the best policies for reaching those goals. The preceding section showed how the general aims expressed in the Treaty have been interpreted over the years, taking account of the challenges faced by both existing Member States and by the countries joining the EU.

The concern here is with the underlying reasons for regional disparities in economic development. These, it should be emphasised, can differ between regions in different parts of the EU and are likely to change over time. For example, the reasons for lagging development in regions in the UK are different from those in regions in Romania, and the reasons for lagging development in regions in Spain or Portugal today are not necessarily the same as they were in the 1980s.

In the discussions surrounding Cohesion Policy, there are three main strands of thought about the factors which the policy should be aimed at tackling. They can be characterised as those that focus on the 'first nature' determinants of development – i.e. those that are largely inherent in the country or region concerned – those that focus on the 'second nature', or human-constructed or influenced, determinants, and perhaps most importantly in the recent past, those that focus on the impact of trade and economic integration on development.

9 See also: CSWD 2013/: Operational guidance on how to include a territorial dimension in the Commission's Impact Assessments. http://tobecompleted

The distinction between first and second nature determinants is somewhat blurred. Some factors cannot be changed at all (such as the presence of mountains) and are clearly inherent. Others can change but only over the very long-term, such as the rural or urban nature of a region or the pattern of settlements, and might be considered as inherent from a policy perspective to all intents and purposes. Yet others might be capable of being changed more quickly, though still only over a long period of time, such as the broad structure of economic activity (which is likely to reflect the inherent characteristics of regions) or the education attainment level of the work force, but are more open to policy influence even if any changes achieved over the medium-term (within say a programming period) are likely to be relatively small. Still other factors can be changed relatively quickly, such as access to broadband, and clearly belong to the second nature group of determinants

4.1. Cohesion Policy has moved beyond first nature determinants of growth

At the origin of many budget policies for transferring income from leading to lagging regions is the notion that economic activity, and so the capacity to generate income, will always be depressed in some regions. This is typically justified by first nature arguments to do with the inherent features of regions that policy cannot change or at least only very slowly, such as, for example, their geographic remoteness.

These arguments have frequently been made over the years in relation to regional development in the EU. The Treaty refers to a number of places as worthy of particular attention: '*rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions*'. Some have argued that these types of area merit separate permanent funds to compensate them for their ‘first-nature’ handicaps.

Those responsible for the design of Cohesion Policy, however, have tended to resist such arguments. Although they may seem appealing and may have merit in individual cases at a given point in time, they cannot be generalised as condemning a particular type of region to lagging development for ever. Many places have managed to overcome these ‘first nature’ obstacles and have succeeded in achieving a relatively high rate of growth and becoming ‘high income’ regions. In a 21st century economy, the inherent characteristics in question can be as much a stimulus to growth as an obstacle. This is why Cohesion Policy has focussed more on the ‘second nature’ determinants of development which policy can affect rather than being content merely to compensate regions for their supposed disadvantages, though at the same time recognising that these ‘disadvantages’ need to be taken into account when designing the shape of the policy to be pursued.

It has also focused from the beginning on the third set of determinants of development, the closer economic integration of regions across the EU. Indeed, the whole rationale for Cohesion Policy since it was initiated has been to strengthen the capacity of regions to develop in the context of a single market in which goods and services are traded freely across national borders.

4.2. Cohesion Policy can boost growth through investment in second nature determinants of growth

Economic theory and empirical evidence suggest several possible reasons for lagging development, which can be identified to lesser or larger degree as second nature determinants.

Economic theory and empirical evidence suggest several possible reasons for lagging development.

(1) Under-investment in public capital stock

A lack of public capital stock due to inadequate public investment historically can underlie a significantly lower level of development. .For example, most of the regions in central and eastern Europe that used to be behind the iron curtain have a much poorer endowment of infrastructure. In some countries, public investment has been relatively concentrated in the regions which include the capital city or are close to it and regions far from the capital tend to have lower levels of capital stock which may hinder their development. For example, the capital city region may have a disproportionately large concentration of universities and research centres as compared with other parts of the country.

(2) Low accessibility

The location of a city or region relative to others determines to a large degree how accessible it is. For example, the accessibility by road to the rest of the EU will always be less in Northern Finland and Sweden than in Luxembourg, regardless of the level of investment in transport infrastructure.

Nevertheless, the accessibility of some regions or cities is considerably less than it could be if transport links were better. Improving transport connections would allow producers situated there to compete more effectively in the Single Market, while at the same time providing easier access to their markets for producers situated elsewhere so increasing competition. This would tend to lead to the economic convergence of less developed regions insofar as the costs of producing there were lower. In addition, the closer economic integration which would result would tend to lead to higher overall economic growth in the EU.

(3) Human capital

The quality of the labour force has a major effect on productivity and so economic development. High levels of human capital mean that workers are more efficient and more innovative. In addition, high levels of human capital can increase the flexibility and adaptability of the labour force. This makes it easier for an economy to shift to new opportunities as the market evolves.

(4) Innovation

Introducing new products on to the market, using new processes to produce them and making organisational and marketing improvements can have a substantial effect on economic development. In the long run, innovation is the main driver of economic growth. For regions distant from the knowledge frontier adopting and adapting innovations developed elsewhere can help them to catch up.

(5) Low institutional quality

Economic research has undergone an 'institutional turn' in recent years with a great deal of work highlighting the key role played by the quality of government and the institutional capacity of public administrations in boosting development. This line of research and the evidence it has produced demonstrate that low quality of government can obstruct development and that countries and regions can get stuck in a low-quality and low-development trap. Most of this research focusses on developing countries, though it is evident that it can also apply to Europe.

In addition to the direct benefits that a high-quality administration can generate, it can also increase its capacity to identify the right investment mix and use funding efficiently.

(6) Agglomerations and clusters

A further reason for under-development is the absence of agglomerations which can house economic activity and generate the economic advantages, or economies, of people and businesses being concentrated in a particular place (urbanisation economies). There are, in addition, economies to be gained from producers in the same economic sector or in linked activities being located in close proximity to each other (in clusters or industrial districts).

Urbanisation economies obviously depend on the presence of a large city or several cities located close to one another. Clusters or industrial districts do not necessarily require the presence of a large city, but they do require a sufficient concentration of enterprises to generate externalities.

Regions could be affected by the under-development of one, or more, of these factors. Cohesion policy was created to assist lagging regions to reduce their development gap compared to the rest of the EU and it can help to overcome most of the reasons for under-development.

The major challenge is to identify the appropriate policy mix for tackling the factors responsible for lagging development, which in practice is done jointly by the Commission and the regions and Member States concerned through dialogue with each other. Depending on the region, the policy mix may need to focus on human capital, institutions, infrastructure or innovation or, more usually, some mix of these. The OECD, for example, has emphasised that investment in transport infrastructure needs to be accompanied by other measures to improve the productivity of the firms in the region which is being made more accessible, in order to avoid it losing more of the local market to producers elsewhere than it gains from being able to export more easily to other regions.

The aim of reducing under-development should not be misunderstood as an ambition to equalise the level of development in all regions. This would be an impossible and inefficient goal. Some regional differences in productivity, employment and education will always remain, but these should not be considered problematic if they do not lead to differences in well-being or standards of living. Cohesion Policy cannot entirely overcome the lack of agglomeration economies – urbanisation economies, in particular, cannot be created without a large city. It can, however, facilitate the emergence of these economies in existing cities or in a polycentric network of cities. The benefits from agglomeration might, therefore, be realised through cooperation between towns or cities or by establishing links between urban centres or even between urban and rural areas.

The spatial concentration of a sector or linked economic activities can occur outside large cities. Although some people question whether public policy can create clusters or industrial districts, measures to improve the business climate and stimulate innovation might lead to agglomeration economies emerging in some regions without large cities.

The impact of agglomeration economies on regional disparities, however, should not be exaggerated. Within the EU, there are many regions with high productivity without a large city and many regions with low productivity despite the presence of a large city. The main reasons for regional differences in economic development are to do with the capital stock, technology and human capital; not the presence or absence of a city.

4.3. Cohesion Policy supports market integration and can help less developed regions grow faster

Regional disparities can be viewed as inefficient or efficient depending on what determines these disparities. If inefficient disparities can be removed, they will boost overall growth. Trying to remove efficient disparities, however, will result in a sub-optimal allocation of resources and so reduce overall growth.

This is particularly relevant in the discussion surrounding the expected impact of the single market. In part, Cohesion Policy was motivated by a fear that lagging regions would lose when joining the single market. Three economic theories can be linked to radically different views on this.

Neo-classical economic theory would predict that capital would flow to the least developed regions because it would generate the highest returns there. For example, it would expect foreign direct investment (FDI) to go to less developed Member States so boosting their growth rate. Investment in the public capital stock might lag behind because of the low level of income in the country, so that it might not, for example, be able to afford to invest in good transport infrastructure to connect the economy to the single market. This could depress the return on private investment and slow down the inflow of FDI. According to this theory, Cohesion Policy could help to alleviate the funding difficulty and so accelerate the process of convergence.

When the single market was being created, a new theory emerged. New trade theory, based on earlier work by Kaldor and others on increasing returns to industrial production and developed in the 1980s by Paul Krugman, emphasised that economies of scale mean that regions with a large share of a particular industry and so tend to benefit more from trade, what is termed the home market effect.

Many supporters of Cohesion Policy, since they considered that lagging regions would lose out because they lacked economies of scale, viewed the funding provided under the policy as compensation for regions likely to face economic decline as a result. So instead of working with market forces, Cohesion Policy was seen as working against them. Accordingly, Cohesion Policy was not expected to reduce regional disparities, but to merely to compensate the regions experiencing relative if not absolute economic decline. The same argument can be found in the World Bank Development Report of 2009.

The new economic geography, which was developed in the 1990s by Krugman and others has links with the new trade theory but is more nuanced as regards the benefits of trade. While it recognises the importance of increasing returns to scale, it points to the costs of congestion and other factors that encourage the dispersion of economic activities and the shift of producers out of centres where economic activity is concentrated after a certain point.

According to this theory, lagging regions might benefit from being part of a single market but this is not automatically the case since much depends on the economic conditions in these regions, especially the business environment, in relation to those in more developed regions. It is, therefore, considered that Cohesion Policy can potentially help to reduce regional disparities but should find ways to work with market forces to strengthen their effect in reducing disparities.

For example, Cohesion Policy can help to improve the business environment in lagging regions so increasing the likelihood that they will be more likely to benefit from trade integration. Equally, it can support improvements in transport and digital connections, enabling scale economies to be achieved through increased trade and inward investment. Last, but not least, Cohesion Policy can also help to alleviate some of the congestion costs in the fast-growing, lagging regions by investing in better public transport and improvement in urban mobility; thus helping to prolong this growth by reducing its negative externalities.

5. THE DIVISION OF FUNDING BETWEEN POLICY AREAS HAS EVOLVED AS THE GOALS OF THE POLICY HAVE CHANGED

The way that funding is divided between the broad policy areas supported by Cohesion Policy depends on the types of region concerned and their needs and priorities. Investment in infrastructure has consistently been higher in less developed regions than in others. In the EU-15, the share of funding allocated to non-environmental infrastructure, amounted to 36% in the 1989-1993 period, though it fell to 23% in the 2007-2013 period as transport networks were completed. At the same time, support for environmental infrastructure increased from the 1994-1999 period on following the introduction of the Cohesion Fund, which raised environmental investment from less than 2% of Cohesion Policy funding in 1989-1993 to 14% in the next period and 15% in 2007-2013.

In the other EU-15 regions, the share of investment in (non-environmental) infrastructure rose from 5% in 1989-1994 to 13% in 2007-2013, in part due to increased investment in renewable energy from 2000 on, while environmental investment also increased, from 8% to 14% of total funding.

By contrast to infrastructure, investment in human capital was consistently higher as a share of total funding in the other EU-15 regions than in less developed ones, though it varied between periods. It increased from 39% of total funding in 1989-1993 to 57% in 1994-1999, mirroring a reduction of similar size in the share going to business support. It then declined to 46% in 2000-2006 and 35% in 2007-2013 as support, first, for infrastructure and then for the environment increased. On the other hand, the share going to business support rose slightly from 31% in 1989-94 to 34% in 2007-2013

In less developed regions in the EU-15, the share of funding going to human capital fluctuated less between periods, varying between 21% and 25% and accounting for 22% of the total in 2007-2013. The share of funding going to the business support was much the same as in the other EU-15 regions over the last three programming periods, accounting for 34% of funding in 2007-2013 after falling to 28% in the previous period.

Table 6: Cohesion Policy funding by broad policy area in EU-15, 1989-2013

	Less developed regions & CF				Other regions			
	1989-1993	1994-1999	2000-2006	2007-2013	1989-1993	1994-1999	2000-2006	2007-2013
Business support (including - RTDI)	31.5	33.0	28.0	34.4	48.1	31.1	29.2	33.8
Infrastructure (Transport, Energy, Telecom, Social infrastructure)	36.3	26.1	30.9	23.2	5.2	1.5	13.4	13.2
Human Capital (labour market, education, social inclusion etc.)	20.6	24.7	24.5	22.3	39.0	56.8	45.8	34.6
Environment	1.6	14.3	14.0	15.4	7.6	9.8	8.6	14.2
Other	9.7	1.9	0.8	0.4	0.0	0.8	1.1	0.3
Technical assistance	0.4	0.0	1.8	4.3	0.0	0.0	1.8	3.8
TOTAL	100	100	100	100	100	100	100	100

Source: Structural Fund reports, SFC and REGIO calculations

The distribution of Cohesion Policy funding between policy areas in the countries that acceded to the EU in 2004 and 2007 is very different from that in the EU-15, even in the less developed regions. These countries have allocated a much larger share of funding to infrastructure and the environment (in practice, mostly environmental infrastructure), especially in the period 2004-2006, reflecting the very low levels in terms of quality as much as amount, and, consequently, their far greater need for investment to comply with EU Directives (see below).

As a consequence, the share of funding allocated to business support (26% in 2007-2013) and human capital 13%) was substantially lower than in the EU-15, though there was some shift from infrastructure to business support in the 2007-2013 period (from 14%).

Table 7 Cohesion Policy funding by broad policy area in acceding countries, 2004-2013

	EU-10	EU-12
	2004-2006	2007-2013
Business support (including RTDI)	14.2	25.6
Infrastructures (transport, energy, telecoms, social infrastructure)	41.5	36.1
Human Capital (labour market, education, social inclusion)	14.8	12.5
Environment	27.3	20.8
Other	0.1	0.0
Technical assistance	2.1	5.0
TOTAL	100.0	100.0

Source: Structural Fund reports, SFC and REGIO calculations

Box on Financial instruments in 2007-2013

Financial instruments (FIs), in the sense of revolving or recyclable funding to complement non-refundable grants, have been part of Cohesion Policy since the 1994-1999 programming period and have expanded in terms of variety, scope and amount since then. The flexibility which they involve in providing support to Member States and regions has been especially important in the uncertain economic circumstances of the past few years.

FIs have to conform to the logic and legal framework of Cohesion Policy, including shared management and the principle of subsidiarity. Policy intervention occurs mostly in regions where there are obstacles to development in the form of low administrative capacity, a shortage of entrepreneurs, underdeveloped financial markets and so on. FIs can help to tackle these obstacles by:

- providing a range of forms of financial support, including equity, loans, guarantees and micro-finance to enterprises (primarily SMEs) as well as for urban development and energy efficiency or renewable energy projects;
- enabling public resources to be used more efficiently by drawing on commercial practices and expertise and by attracting private capital, in part by absorbing some of the risks of investment;
- enabling the same funds to be used several times over so increasing their effects, which is particularly important in times of budget constraints;
- giving an incentive to recipients to use the funding efficiently in order to be able to pay it back.

As the use of FIs has increased during the 2007-2013 period, there has been a growing need to learn from experience and adjust the legal framework, harmonise the rules and offer more detailed guidance on their deployment. Audits carried out by the Commission, Court of Auditor reports and studies and observations by the European Parliament and the institutions involved in the management of FIs have pointed to the challenges that need to be tackled before FIs can fully affect the pursuit of Cohesion Policy objectives. Since the 2007-2013 legislation came into force, the Commission has taken several steps (by amending the regulations, issuing guidance notes, carrying out evaluations and offering technical assistance) to strengthen and clarify the rules on FIs.

According to the latest data reported by Member States, around 5% of ERDF allocations for 2007-2013 had been committed to more than 900 FIs in 175 OPs in 25 Member States (all except Ireland and Luxembourg) by the end of 2012. Support from the ERDF and, to a minor extent, the ESF, amounted to EUR 8.4 billion, most of it going to enterprises. Over 144, 000 separate instances of investment projects in businesses had occurred and over

40,000 gross jobs were reported to have been directly created through FIs.

Some EUR 744 million of the Structural Funds has also gone to co-finance FIs providing funding for urban development and energy efficiency and/renewable energy projects in 19 Member States. Recent data indicate that on average each EUR 100 of the Structural Funds going into FIs have led to EUR 150 of national public and private co-financing. This rate should increase over time as the funds are recycled. Data also indicate, however, that almost EUR 8 billion of OP funding remained in FIs and had still to reach final recipients at the end of 2012. In a number of Member States, efforts, therefore, need to be stepped up to ensure that this funding reaches final recipients by the end of 2015 (i.e. the date by which funding for the 2007-2013 period has to be spent).

6. THE IMPACT OF THE CRISIS ON THE 2007-2013 PERIOD

The economic and financial crisis hit the operational programmes planned for the 2007-2013 programming period early on. Although EU regional policy is designed as a long-term structural policy, action was required to adapt to a widely different economic context and to respond to unexpected challenges.

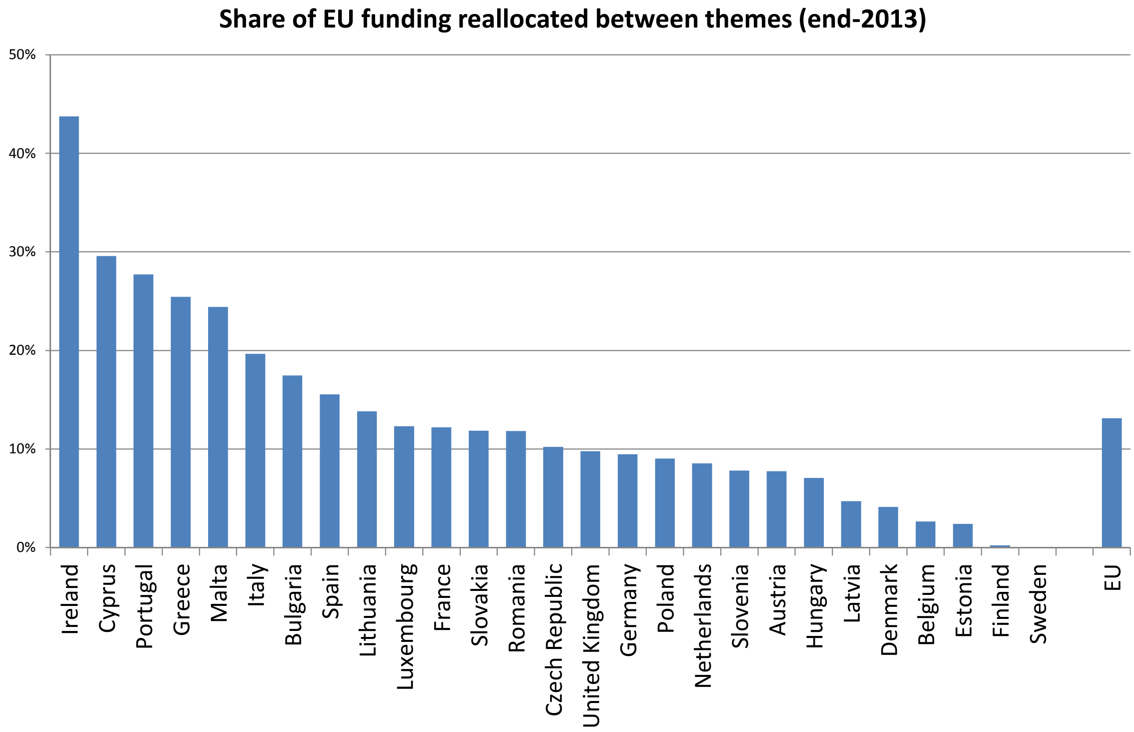
At the operational level, a number of programmes experienced a mismatch between the funding allocated and the demand for it or a radically different local context. For instance, a decline in demand for support was registered in certain policy areas and an increase in others. In many programmes, there were problems finding the necessary national or regional co-financing and coping with exchange rate variations (in Poland and the UK especially), though there were also reductions in construction costs which reduced the cost of some projects (such as in Bulgaria and Poland).

A number of innovative measures, both regulatory and at the programme level, were implemented to accelerate the disbursement of the Structural Funds and to make them more flexible and responsive, especially in the most vulnerable Member States. The Commission provided support to Member States on reprogramming, including in the form of Task Forces (e.g. to help Greece implement the EU-IMF adjustment programme and speed up its absorption of EU funding). In February 2012, action teams were set up in 8 Member States (Ireland, Italy, Latvia, Lithuania, Portugal, Slovakia and Spain as well as Greece), with representatives of national and Commission officials.

Almost 13% of the total funds (EUR 45 billion) has been shifted from one policy area to another since 2009 to meet the most pressing needs and to strengthen particular interventions which had shown themselves to be effective (see Figure 84). The main increases in funding were for R&D and innovation, generic business support, sustainable energy, roads and the labour market, in particular measures to increase youth employment. The main reductions were on ICT services, environmental investment, railways, training, education and capacity building.

By 2013, about EUR 17 billion of EU financing had been targeted for accelerated delivery or reallocation, which might help around 1 million more young people and 55,000 SMEs.

Figure 11: Share of EU funding reallocated between policy areas

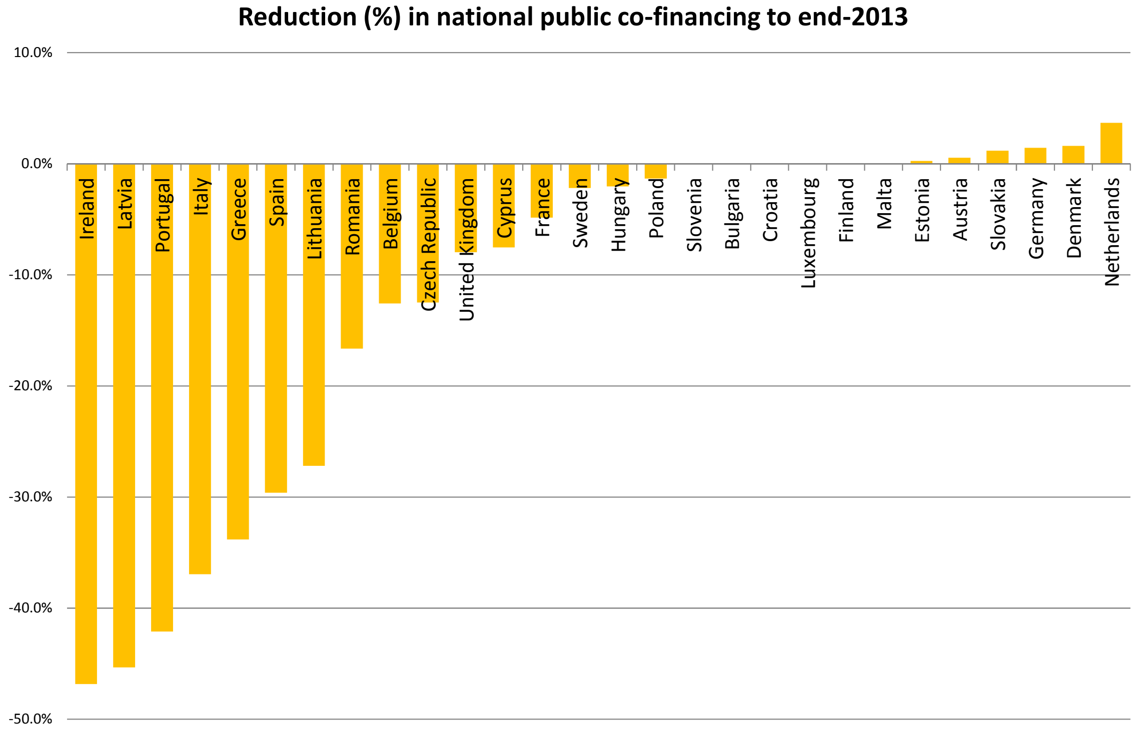


The Commission has encouraged simplification or rationalisation of national and regional procedures to ensure faster implementation of programmes by paying advances to public authorities and increasing those to enterprises under state aid schemes (in 10 Member States). In order to improve the cash flow of managing authorities, the Commission has provided additional advance payments of EUR 7 billion[10].

In addition, national co-financing rates have been reduced for a number of Member States, especially those most affected by the crisis, to take pressure off national budgets This has reduced the national public spending requirement significantly from EU 143 billion to EUR 118 billion, i.e. a reduction of 18%, which has cut the overall amount of public investment carried out but which has helped to secure the completion of projects already planned and to improve cash flow in the countries concerned.

[10] This amount includes the additional pre-financing introduced by Council Regulation (EC) No 284/2009 as well as another EUR 775 million provided by amending regulation (EU) No 539/2010. Which was also intended to improve liquidity for Member States,

Figure 12: Reduction in national cofinancing to end 2013



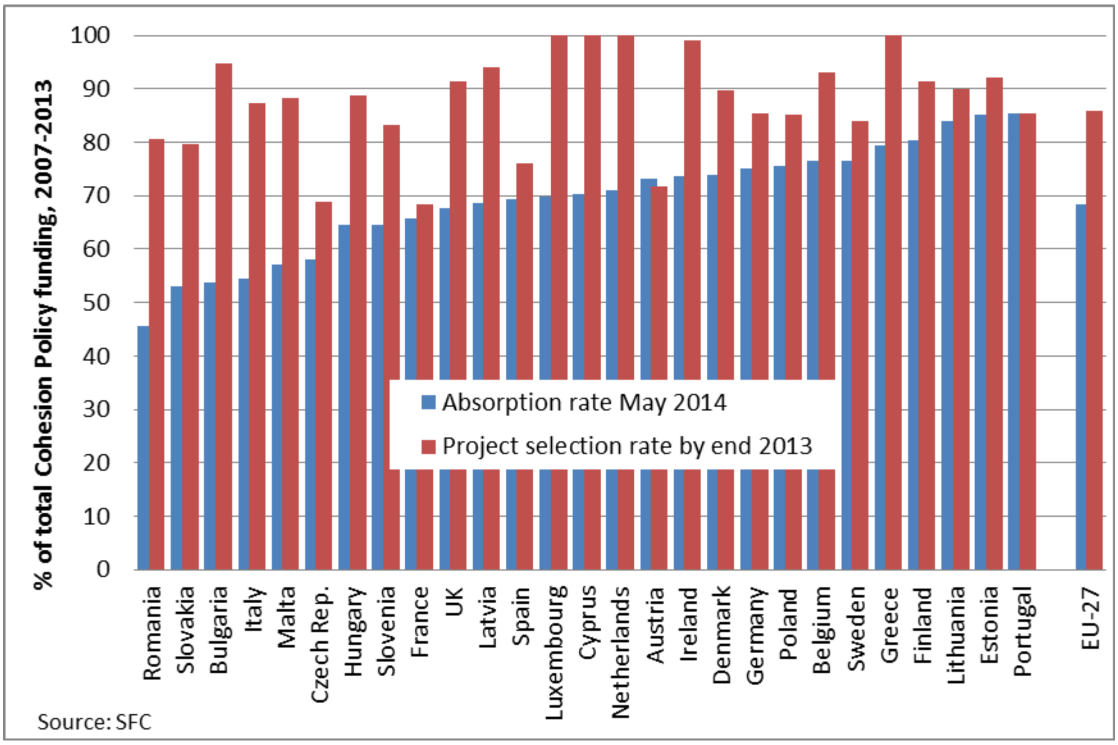
The EU has also approved further reductions in national co-financing by temporarily increasing EU co-financing rates by 10 percentage points for Member States with the greatest budget difficulties (the so-called 'top-up' for countries with adjustment programmes). The 'top-up' provision has enabled payments to be made to these countries at an earlier time than originally anticipated, so easing the pressure on national budgets and providing much-needed liquidity. By the end of 2013, almost EUR 2.1 billion had been paid as 'top up'.

The 'top-up' reduces the national contribution to Cohesion Policy programmes and so eases the burden on national budgets at a time when they are under extreme pressure and provides much-needed liquidity

Major results are still expected from the 2007-13 Cohesion Policy programmes over the next 18 months. By end-2012, the projects selected were reported to account for around EUR 292 billion, or 84% of available EU funding. In some Member States, however, there are serious delays in both project selection and initiation, especially in areas such as RTDI, railways, ICT and broadband, energy and capacity building, where authorities have less experience or projects are relatively complex to carry out.

Recent payments data underline the need for efforts to complete the 2007-13 programmes to be stepped up. By May 2014, EUR 108 billion, or 32% of total funding available for the period, was still left to be paid by the Commission to Member States. Lower payment rates were registered for Romania, Slovakia, Bulgaria, Italy and Malta (see Figure 86). While there is an inevitable delay between expenditure taking place on the ground, it being declared to the Commission and payment being made, there is a growing risk that some Member States and regions will lose a large amount of funding because of not being able to complete programmes by the end of 2015. There is a serious possibility, therefore, that they will fail to achieve their intended policy aims unless things speed up markedly.

Figure 13: Funding absorption and project selection by Member States for the 2007-2013 programming period



6.1. ESF and the reaction to the crisis[11]

The role of the ESF in response to the crisis varied across the EU according to the way labour markets were affected, the support already in place and the specific measures implemented in the different countries.

Labour market developments

The impact of the crisis on employment differed significantly between Member States, reflecting the way different sectors were affected by the crisis as well as the policy responses to it. Over 5 million jobs were lost in the EU-27 between the third quarters of 2008 and 2009, though these were unevenly spread across Member States. After 2009, developments in countries continued to diverge, with some experiencing economic growth and others further decline. As employment has fallen less than GDP over the crisis period in a number of countries, the full impact of the economic downturn may still be to come.

National policy responses and the role of the ESF

[11] http://ec.europa.eu/social/BlobServlet?docId=7671&langId=en

When the crisis began, a European Economic Recovery Plan was launched which included recommendations for labour market policy measures in Member States. In most countries, recovery packages were introduced to counter the effects of the recession. A range of active labour market measures were implemented, including short-time working arrangements, temporary wage subsidies, reductions in non-wage labour costs, increased public sector employment and training programmes. The last accounted for around a third of the increased expenditure, while a quarter went on employment initiatives and smaller amounts on direct job creation and business start-ups.

The ESF provided support to training, in particular, giving the opportunity of those on short-time working arrangements to upgrade their skills at the same time. It also co-financed measures to create or maintain employment, such as apprenticeship schemes and recruitment incentives.

Some shifts in the allocation of funding occurred in Member States over the period in response to the crisis, partly to assist sectors that were badly affected (such as construction and parts of manufacturing). Indeed, one effect of the crisis has been to raise awareness of the consequences of a severe economic downturn for employment in major sectors of the economy as well as for particularly vulnerable social groups.

7. CONCLUSION

The above represents an overview of how the goals of Cohesion Policy have evolved over time and how they have become more closely linked to the overall strategy of the EU. This has had clear repercussions on the types of action supported by Cohesion Policy with an increasing share going to environmental projects and more funding being linked to the Lisbon, Gothenburg and the Europe 2020 strategies.

The geography of Cohesion Policy has been simplified since 2007 to ensure that it can cover all regions while increasing the efficiency of implementation.

Successive enlargements have changed the challenges which Cohesion Policy is aimed at tackling and increased the difficulty of overcoming them. Not only have they led to regions with low levels of development being added to the EU, but they have increased its territorial diversity.

With the introduction of territorial cohesion as an explicit objective in the Lisbon Treaty, Cohesion Policy has placed a stronger emphasis on sustainability and access to basic services, on the need to take account of functional geography and on the importance of territorial analysis. This is mirrored in the increased focus on sustainable growth in Europe 2020 and in the recognition of the importance of moving beyond GDP when assessing territorial development. ESPON has responded to the need for more territorial analysis with support for applied research targeted on relevant issues.

The debate on how to measure progress and how Cohesion Policy should respond to this is still ongoing. The outcomes of this debate are likely to influence the shape of Cohesion Policy after 2020 as well as perhaps how policy is implemented in the current period.