

The response of Cohesion Policy to the economic crisis



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The global economic crisis has had a major impact on the economies of EU Member States and on the livelihoods of millions of households. GDP has declined, many businesses are struggling, unemployment has risen sharply. The EU responded with the European Economic Recovery Plan, which encouraged Member States to provide a fiscal stimulus to their economies. As a result of this, the bail-out of the banks, and the impact of the recession, public sector budget deficits and public debt levels have risen dramatically. Cohesion Policy – designed to help the disadvantaged regions and communities of the EU – has made an important contribution to the Recovery Plan. A range of measures has been taken through a series of amending regulations. The objective has been to simplify and clarify the Structural Fund regulations, to protect project implementation and to accelerate spending on the ground. Cohesion Policy has shown itself to be responsive and flexible. Unlike so many areas of public expenditure, it focuses on investment and is designed to provide a positive socio-economic return for communities and economies.

Introduction

Although most leading politicians and financial regulators failed miserably to anticipate the banking crisis, EU leaders displayed surprising urgency and unity in reacting to the unfolding global economic crisis. They unveiled the European Economic Recovery Plan back in late 2008, designed to coordinate actions in the individual Member States – primarily by way of a fiscal stimulus in each country – and to take common action at the EU level, where it was deemed to be prudent and workable.

Amongst the contributions to the Recovery Plan is that from Cohesion Policy. This article briefly reviews the impact of the economic crisis on the EU and examines the initiatives taken within the field of Cohesion Policy – measures to simplify the Structural Funds regulations and accelerate spending on the ground. It concludes by considering the special merits of the policy and showing why it has been a useful tool at the heart of EU activity.

The impact of the economic crisis

Declining output, rising unemployment

While news headlines in 2010 have been dominated by the state of public finances in Greece, Ireland, the United

Kingdom, Spain, Portugal, Italy and beyond, the reality of the recession is very painful indeed for workers losing their jobs and maybe their homes, for businesses struggling to survive, and for failed businesses. Declining national output (usually measured by gross domestic product, or GDP) means fewer jobs, fewer businesses, lower average incomes, more hardship and a weaker public sector budget. Average GDP across the EU fell by 4% (in real terms) in 2009, and the decline was much more dramatic in some Member States.

Latvia has been worst hit by the financial and economic crisis. A small, open economy – with a population of only 2.3 million – Latvia had been somewhat “overheating” before suffering a banking and property crisis. Not cushioned by membership to the euro-zone, Latvia has seen unemployment rise from 6% to 22% in just over a year. National income fell by 19% in 2009 alone and, as tax revenues dried up, the country was forced to borrow from the IMF and the EU.

Spain, for so long propelled by their construction boom, has seen unemployment more than double from 9% to 21% in just over a year. In the middle of 2007, 1.7 million Spaniards were looking for work; the figure is now a shocking 4.5 million people. In Ireland, the unemployment rate reached

12%, up from just 4% in the previous year. Unemployment levels have passed 3 million people in both Germany and France and are projected to do the same in the UK. Across the EU, the standardised unemployment rate (the definition of unemployed being those out of work and actively seeking work) has risen from about 7% to around 10%, with over 23 million people now out of a job.



Killybegs Harbour Development, Co. Donegal, Ireland

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Public finances in trouble

The recession has undone 20 years of fiscal consolidation across the EU. Public sector budget deficits are now alarmingly high, easily surpassing 10% of GDP in Greece, Spain, Ireland and the UK. Across the EU the average annual budget deficit is 7% of GDP, more than double the 3% limit recommended by the Stability and Growth Pact (SGP). Leading euro-zone Member States chose to waive the SGP rules when it suited them. Now the lack of budget discipline and control is having massive consequences for the whole currency area and beyond.

Public sector (accumulated) debt levels in the EU are now standing at about 80% of GDP, up from about 60% in just two years. The UK and Ireland have seen the most dramatic increases in national public sector debt, in large part due to their exposure to the banking sector crisis and the massive bail-out packages for the banks. Debt levels have doubled for these countries, rising from relatively modest levels (around 30% of GDP in Ireland, about 40% in the UK) to levels previously associated with their less prudent EU neighbours. For Greece, Italy (and Belgium), for many years the bad cases of Europe, public sector debt levels are unlikely to fall below 100% of GDP for some time.

The figures for the Greek public sector deficit and debt are striking. Greek GDP – the output they produce or the income they can generate in one year – stands at about €240 billion. Government spending in Greece is about €120 billion per annum, maintaining the armed forces, police and justice services, public services, public salaries, pensions, social security and so on. On the other side of the budget balance, tax revenues to government do not even reach €90 billion. This leaves a gap between spending and revenue (the public deficit) worth €32 billion, a staggering 14% of GDP. Meanwhile, the burden of interest payments on the national debt is set to soar. The Greek national public debt has been high for many years, and now stands at about €275 billion.

It means that the Greek government has to periodically sell (issue and re-issue) bonds on the open market, whereby they borrow money for a period of time, paying (regularly) a competitive rate of interest to creditors, and then paying back the principal (the sum borrowed) when a bond matures. Creditors are now demanding higher rates of return on the bonds, to reflect the risk they take.

Although most public sector workers are usually protected from the worst effects of recession – keeping their jobs and guarding their pension entitlements – they too are finally sharing some of the pain in some countries. Latvian civil servants (indeed, all public servants) have seen their pay halved – across the board. Meanwhile civil servants in Ireland and Spain have had to suffer pay cuts, and it seems that public servants in Greece must finally pay more for

their job security and pension benefits.

The European economic recovery plan

A series of announcements came from the Council in late 2008, culminating in the publication of the European Economic Recovery Plan.¹ This Plan brought together the plans of Member States and proposed a number of measures to be taken at EU level. It added a little money at the EU level but most was to be done at the national level.

Most important was the recommended stimulation of demand in each country, by using fiscal policy to inject spending power worth 1.2% of GDP. Some taxes were reduced, some elements of government spending boosted. Monetary policy would complement this, by keeping interest rates at low levels. Member States were also encouraged to continue with important structural reforms, consistent with the Lisbon Strategy: more flexibility in wage-setting mechanisms and the functioning of labour markets, and reducing the regulatory and administrative burdens on business. Green measures were to be advanced, including investments in green technologies, and old car scrapping schemes. The European Investment Bank (EIB) was to increase its lending to small and medium-sized enterprises, while the European Commission would bring forward spending on the Trans European Networks (TENs) for energy supply and broadband.

State aid rules relaxed

Some EU-wide rules were relaxed. State aid rules,² for example, were relaxed for the period until the end of 2010, using a temporary framework established by DG Competition. Measures included allowing a lump sum of €500,000 of aid to be paid out to any company to help them through difficulties encountered since the middle of 2008.³

The response of cohesion policy

EU Cohesion Policy aims to reduce the economic development gap between the poorest regions and other regions and between the poorest communities and other communities within the EU. It does this by providing EU co-finance to projects in the Member States which support investment in companies, investment in skills and investment in essential infrastructure. There are three instruments of Cohesion Policy: two Structural Funds (the European Regional Development Fund (ERDF) and the European Social Fund (ESF)) and the Cohesion Fund. All projects which are co-financed by these funds are organised into Operational Programmes. The priorities for these programmes are negotiated between Member States and the European Commission. The implementation of the programmes is managed by the Member States over a planning period of about seven years, called the programming period.

Cohesion Policy has had a central role in the EU response to the economic crisis. Measures were first proposed in the Commission communication "Cohesion Policy: investing in the real economy",⁴ followed by a series of amending regulations. The key amending regulations are listed in Table 1 and the substance of them is described below.

Advances to the 2007-2013 Operational Programmes

For the current programming period, the most significant change made by the European Commission was to increase the level of advances (or pre-payments) to Operational Programmes. From a total budget of €347 billion over seven years, the Commission had planned to hand out about €23 billion in advances to programmes over the first three years. But for 2009, an extra €6.25 billion was advanced to Member States, on top of the €5 billion already advanced that year.⁶ Added to the €18 billion of advances made in 2007 and 2008, this means that nearly €30 has now been advanced to programmes – more than 8% of all funds.

The latest amending regulation of 24 June 2010⁷ further increases the advances to Member States which currently have cash flow problems or have seen GDP fall by more than 10% in 2009: Estonia, Latvia, Lithuania, Hungary and Romania. This will be done by advancing a further 4% of ESF funds, and an additional 2% of the Cohesion Fund (see Table 2).

All these monies are hugely important for kick-starting projects and programmes in many Member States, especially at a time when Government finances are being squeezed. The advances also have the added advantage of being treated as expenditure (and payments made to programmes) for the purposes of the n+2 or n+3 rule.

Table 1: Structural Funds and Cohesion Fund amending regulations, 2008-2010

Date	Regulation number
18 December 2008	Council Regulation (EC) 1341/2008, amending Regulation (EC) 1083/2006 (General Regulation for Structural Funds and Cohesion Fund)
7 April 2009	Council Regulation (EC) 284/2009, amending Regulation (EC) 1083/2006 (General Regulation)
6 May 2009	Regulation (EC) 396/2009, of the European Parliament and of the Council, amending Regulation (EC) 1081/2006 (European Social Fund)
6 May 2009	Regulation (EC) 397/2009, of the European Parliament and of the Council, amending Regulation (EC) 1080/2006 (European Regional Development Fund)
1 September 2009	Commission Regulation (EC) 846/2009, amending Commission Regulation (EC) 1828/2006 (implementing regulation)
19 May 2010	Regulation (EU) 437/2010 of the European Parliament and of the Council, amending Regulation (EC) 1080/2006 (ERDF)
16 June 2010	Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006

Extending the 2000-2006 Operational Programmes

An important measure taken by the European Commission was to give Member States the possibility of extending the life of Operational Programmes from the 2000-2006 programming period.⁵ Structural Funds programmes from this period would normally be allowed to spend up until the end of 2008, with a series of winding-up reports being submitted to the Commission within a deadline of 15 months, by 31 March 2010. Under the extension scheme, spending could continue for an extra six months, until the end of June 2009, and the reports could be submitted by 30 September 2010 (and for some specific programmes even later).

In fact, of the €257 billion available to all programmes (and Cohesion Fund projects) for the 2000-2006 period, about €225 billion (87%) had been paid out by the end of 2008. With about two-thirds of all Programmes taking advantage of this extension (385 out of a total of 555 programmes), it is expected that virtually the whole budget will now be spent.

Table 2

	ESF additional advance (4%); in € million	Cohesion Fund additional advance (2%); in € million	Total advance; in € million
Estonia	15.7	23.0	38.7
Latvia	22.0	30.8	52.8
Lithuania	41.1	46.1	87.2
Hungary	145.2	172.8	318.0
Romania	147.4	131.0	278.4
Total	371.3	403.8	775.2

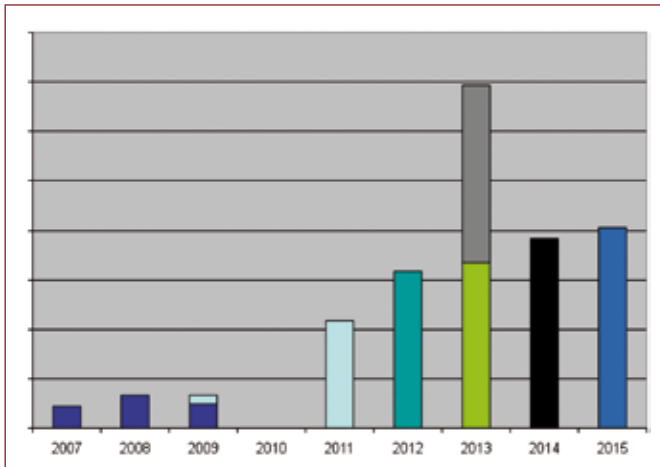
This rule dictates that EU funds to programmes are automatically decommitted (taken back by the EU) if not spent within two or three years of their scheduled (automatic) commitment.

Relaxing the rules on spending the 2007 commitment

Although the 2007-2013 programming period was well advanced in terms of planning and proposals – compared to previous programming periods – programmes rarely started in full flow at the beginning of January 2007. Even where programmes were agreed upon in early 2007, expenditure in the early months is slow, putting even more pressure on programmes to perform in subsequent years, in order to avoid the loss of funds through the n+2/3 rule. For this reason, the new 2010 amending regulation has also completely changed the nature of the 2007 commitment by removing the n+2 period (for EU15, less Greece and Portugal) and n+3 period (for EU12 plus Greece and Portugal).⁸ Thus, the 2007 commitment is now available across the whole programming period. More precisely, the 2007 commitment has been split into six equal parts and each sixth added to the individual annual commitments of 2008, 2009, 2010, 2011, 2012, 2013. The decommitment rule now applies only to the six other annual commitments, each of which has been supplemented by the sixth from 2007.

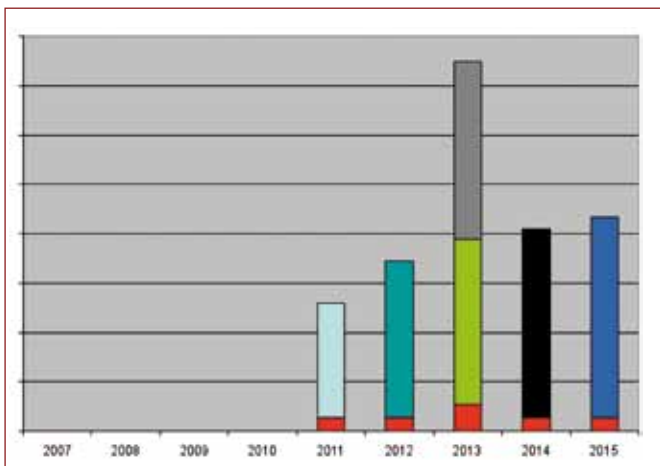
For EU12, n+3 operates for commitments from 2007 to 2010, and n+2 operates from 2011 to 2013. The different colours represent years of commitment, for example, green is 2010, grey is 2011. Their positioning represents the year by which funds must be spent under the n+3 and n+2 rule, for example, the 2011 commitment must be spent by the end of 2013. The advances use up the 2007 commitment in Figure 1; in Figure 2, the 2007 commitment is red, to be used up by the relevant years.

Figure 1: pre-amendment – payments to avoid n+2/3 losses



Source: European Commission

Figure 2: post-amendment – payments to avoid n+2/3 losses



Source: European Commission

Implementing major projects

Major projects were defined in the Structural Funds regulations as being those with a total cost of over €50 million (for example, transport or energy infrastructure), or over €30 million for environmental projects (usually construction of water supply facilities, waste water collection and treatment, solid waste treatment). After the 2010 amending regulation, the major project definition now only includes projects which cost in excess of €50 million, whether they are environmental infrastructure projects or not.⁹

Major projects have the special status of requiring Member States to conduct a (*ex ante*) Cost-Benefit Analysis (CBA), reporting the results on a specific application form, submitting this to the European Commission, and having this approved or agreed by the Commission services. With a higher threshold for environmental projects, the administrative burden on Member States is apparently reduced. That said, Member States would still be well advised to conduct the CBA in order to demonstrate the positive socio-economic value of the project to the regional and national economies.

Under one of the 2009 amending regulations,¹⁰ Member States no longer need to wait for Commission approval to start spending on major projects. This can speed up the implementation process significantly. Major projects, as with all big projects, can often encounter long delays – usually caused by the need for careful coordination, the need for feasibility studies, environmental impact assessments (EIA), CBAs, and the need for land acquisition and planning approvals. These steps cannot ultimately be avoided, but cutting out the administrative waiting time for approval from the Commission should be an advantage and should assist the spending profiles of infrastructure programmes.

The amending Commission Regulation 846/2009 now also allows Member States to submit expenditure statements (and payment claims) based on expenditure incurred for major projects, before the Commission has formally accepted the project.

Of course, it is expected that the preparatory steps and *ex ante* analyses are eventually completed in a satisfactory manner and the Commission does reserve the right to refuse the co-financing of a major project. In such a case, where agreement through negotiation cannot be reached, the Member State would be obliged to finance 100% of the project from national funds (public or private).

Another change for major projects has also been introduced in 2010. Under the new rules, one major national infrastructure project (such as a new national motorway or an energy network crossing many regions) can now be funded from different Operational Programmes (typically different regional programmes).¹¹ Previously, the overall major project would have to have been split into different projects, each to be accommodated within a different Operational Programme.

Lastly, where a programme is facing an automatic decommitment of part of any commitment (that part not spent), under the n+2 or n+3 rule, the decommitment will now be reduced by an amount equal to the total budgets of major projects which are still being assessed by the European Commission.¹² This is on the condition that the major projects' application forms have already been submitted by the Member States according to the required standards.

Expanding the JASPERS facility

Besides these simplifications of the rules, the technical assistance facility JASPERS is being expanded by 25%. This initiative (Joint Assistance to Support Projects in the European Regions) is provided by the European Commission in conjunction with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), and is designed to provide specialist help to (the EU12) Member States as they try to implement large infrastructure projects.¹³ The expansion of this resource means that more experts are available to be employed temporarily alongside Member State officials, in order to help them get through the planning processes, to complete the technical feasibility and environmental impact studies, to conduct the cost-benefit analysis, and to manage and execute the project in the most efficient and effective manner.

Revenue-generating projects

For the 2007-2013 programming period new rules were introduced in order to eliminate the excessive draw-down of EU funds in cases where co-financed infrastructure yields a revenue stream to project developers. These are called the Article 55 rules (relating to Article 55 of the General Regulation for Structural Funds and Cohesion Fund, Regulation (EC) 1083/2006). Examples of projects covered by these rules include the construction of roads or bridges



New motorway, Comunidad Valenciana, Spain. Co-financed by ERDF.

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which have pay-tolls; the construction of business parks, where rent will be paid by companies using business space; and tourism sites which charge visitors. However, the rules apply to all co-financed projects which provide services (or where land has been sold) against payment. Notably, Structural Funds grants to businesses – designed to improve business performance – are not covered by the Article 55 rules, nor are loans to businesses, where loans are paid back to the lending body.

The earliest measure of simplification of the regulations took place in December 2008, when the threshold for revenue-generating projects was raised from €200,000 to €1 million.¹⁴ Only ERDF and Cohesion Fund co-finance

projects with a total cost over €1 million are now liable to follow the rules, with ESF projects now being completely excluded.

Where the project is above the threshold, Member State authorities have to make precise estimates of all future capital and operating costs and all future revenue streams, and use a discounted cash flow analysis to calculate the funding gap and *minimum* grant requirement. Under the original rules, on completion of the capital investment phase of the project, actual revenue streams were to be monitored for three years beyond the formal closure of an Operational Programme (which can be four years after the end of the programming period 2007-2013). In the event that revenues were greatly in excess of the estimate, a refund was to be paid back to the EU. Before the threshold was raised to €1 million, even the smallest revenue-generating projects had been bound to monitor revenue streams with a proportionate effort.

An amendment has now been made,¹⁵ cutting the period for monitoring revenue streams. They now need to be monitored up until the submission of closure documents of an Operational Programme, that is to say, 31 March 2017 (i.e. 15 months after the final date for eligibility of expenditure (31 December 2015)). Any excess revenue should be deducted from the (interim or final) payment claims made to the Commission. If programmes wish to re-use any funds repaid to the EU, deductions will need to be made in

payment claims before the final date of eligible expenditure. Significantly, this change has not been made in response to the economic crisis. Rather, it has arrived after much lobbying from Member States, who argued that the administrative burden of monitoring revenues for so long was excessive. Programmes would also have lost the funds repaid.

For projects where revenues cannot be estimated in advance (for certain categories of project, such as high-

tech research and innovation centres), any net revenue generated within five years of completion of the project shall be deducted from expenditure declared to the Commission. If projects are completed more than five years before closure of a programme, the monitoring can be stopped after five years.

Assuming flat rate costs

Best known amongst the simplification measures taken by the European Commission is the introduction of a “flat rate” eligible cost procedure. The relevant amending regulations relate to both ESF¹⁶ and ERDF.¹⁷ So as to avoid the complications and difficulties in estimating the value of

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indirect costs of projects, or the huge administrative burden of always calculating detailed exact costs for relatively modest standard activities, the Commission has decided to allow the submission of "flat rate" assumptions, as long as the assumptions are justified and presented in advance of their widespread application.

There are three specific "flat rate" cases described now in the regulations. The first is the case of "overheads" or regular *indirect costs* involved in executing a particular project (for example, heating, lighting, waste disposal, telephones, photocopying, shared facilities etc). Where justified, these may now be declared on a standardised basis, up to 20% of the direct costs of an operation. The second case is by applying a standard scale of *unit cost*. Good examples are in the field of training, for example, assuming that the average cost of putting a trainee through a particular type of training course is x 000 or y 000 euro; or for a piece of equipment, such as a basic computer terminal. The third case is the *lump sum* flat rate, whereby the lump sum can cover all or part of the costs of an operation. A typical example: the average cost of a particular type of event is calculated at €30,000, and this figure will be assumed as the flat rate cost for all such future events.

Application of the new flat rate methods is strictly prohibited from operations which have a public procurement procedure. That is to say, no contractor or contracting authority may work with flat rate assumptions within tender documents or within billing/payment claims during an operation.



Town heating pipes, Romania

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Greener housing and housing promoting social cohesion

Further boosting the green credentials of Cohesion Policy has been an amending regulation relating to the use of ERDF for the improvement of housing. In the original ERDF regulation, up to 3% of spending within an Operational Programme (or up to 2% of the Member States' ERDF budget) could be used by the new Member States (EU12) to invest in the improvement of certain sections of the housing stock. This is primarily housing in urban areas which are at risk of

serious physical deterioration and social exclusion. Selected areas had to be determined according to the benchmarks defined for a list of criteria. This regulation was designed to contribute to the vast cost associated with the upgrading of the concrete blocks of flats built under Communism.

Under the amending regulation,¹⁸ this spending in EU12 can continue, but an additional 4% of ERDF can also be spent on energy efficiency improvements and on the use of renewable energy in this housing stock. Moreover, this new measure also applies to EU15 Member States, with the condition that social cohesion is supported. This is the first time that Structural Funds have been dedicated to upgrading housing.

Further advances in the field of housing expenditure have been made as a result of a separate amending regulation.¹⁹ Previously, the housing expenditures described above had to be included within an integrated urban development initiative. The amendment means that this expenditure can now also be made in rural areas, where many of the problems to be addressed do exist. The interventions should not be restricted to housing in these rural areas, but should be part of an integrated approach for marginalised communities (e.g. Roma communities), to cover actions in the field of education, health care, employment and social support and inclusion. For these communities, new housing can now also be supported.

Financial engineering

Member States are increasingly encouraged to use financial engineering techniques within their programme operations, that is, bringing in private sector finance, experience and methods to supplement public sector funding and the traditional intervention method of grants to projects and businesses. Examples include standard loan mechanisms, the establishment of venture capital or risk capital schemes, the use of public-private partnerships (PPP), loan guarantee schemes, and so on.

Financial engineering instruments can be notoriously complicated and frequently require good advance planning and specialist management teams. One particular Structural Funds operational challenge to date has been the treatment of the management costs and fees. The 2010 amending regulation addresses this by allowing management fees, in addition to management costs, to be considered as eligible expenditure.²⁰

The new amending regulation also allows Member States to establish new, specialist financial engineering instruments for enabling operations in the field of energy efficiency and the use of renewable energies in housing.²¹

Other simplifications

Despite the financial crisis, fewer than half of the Member States have wanted to revise any Operational Programmes to date. This is good news for managing authorities and the European Commission, as revisions frequently require an evaluation study and significant negotiation between Member State and the Commission, and always require a formal Commission Decision. Programme revisions are very time consuming. The 2010 amending regulation now allows Member States to justify revisions with an analysis of rationale and expected impact, rather than a full evaluation.²²

One modest change introduced by the latest amending regulation is to simplify the requirements on reporting financial information in the Annual Implementation Report

for each Operational Programme. Member State authorities will now only be required to report the same information as that recorded in expenditure statements and payment claims (made regularly to the European Commission), and not to report a raft of financial indicators as before.²³

Projects are normally required to be operational for at least five years (in some cases just three years) after their completion, in order for all project expenditures to remain eligible. With the new amending regulation, this “durability” requirement has been clarified. In those cases where bankruptcy of a company has led to a project not enduring, the project will not be subject to the “durability” rule.²⁴

The possibility of partial closure of Operational Programmes was introduced for the new programming period. The aim was to allow Member States and the Commission to “wrap up” completed parts of Operational Programmes – where feasible – and reduce the significant burdens of big-bang closures. However, the danger of doing this was that auditors might then have found some irregularities in the closed part of the programme. As this would have led to a correction made retrospectively, the funds involved would have then been lost to the programme budget forever, even though the rest of the programme was still open. The amending regulation now allows any such corrections to be re-used, as long as it is the Member State who makes the correction.²⁵

Lastly, the amending Commission Regulation of 23 September 2009 (846/2009) aligned and clarified a number of provisions. Some publicity and information requirements were simplified, the amount of information requested on certified expenditure statements was reduced and a number of forms (for submission to the Commission) were modified.

Progress on the ground

During 2010, Member States reported on the progress of Structural Funds operations on the ground within the context of their Strategic Reporting exercise.²⁶ We know that at the end of 2009, 27% of the €350 billion Cohesion Policy budget had been allocated to projects which had already been approved. (Actual payments levels are much lower). For some Member States (e.g. Netherlands, Belgium), the figures are much higher, with over 50% of their budgets being allocated to projects which have already been approved. For others, the figures are worryingly low, little over 10% for Greece and Romania. Examining progress by field of activity reveals that grants to SMEs are moving ahead rather well, while spending approved for infrastructure projects is progressing steadily. Approvals of projects are taking place at a lower rate for energy supply networks, broadband networks and capacity-building within administrations.

Cohesion policy playing its part?

Cohesion Policy has been at the heart of the EU response to the economic crisis. It has shown itself to be responsive and flexible. Member States and the European Commission have worked together and a raft of new amending regulations have come into force between 2008 and 2010. As a result, spending periods have been prolonged and

additional financial advances have been made, enabling many Member States to complete programmes and initiate new programmes and projects. It has simplified a number of rules and reduced the burden of some administrative and financial control tasks. It is adapting to new needs and challenges.

A focus on investment

Of course the scale of the contribution of Cohesion Policy – in responding to the economic crisis – is modest when compared to the massive fiscal injections made by Member States themselves. But Cohesion activities do have a particular quality – they focus on investment, on creating a successful economic base, and not on consumption. Cohesion activities co-finance investment in essential infrastructure, investment in ongoing and new businesses, and investment in the local people – developing the skills that businesses need to thrive in a global economy. Cohesion Policy does use taxpayers’ money, but is not there to bail out struggling sectors or to provide handouts for the poorest. It is there to help disadvantaged regions and communities to help themselves.

A highly visible policy

For EU citizens, it is probably the most visible of EU policies, understood to produce tangible benefits in many ways. Many call for the policy to be repatriated, and let the Member States get on with their own economic development work, in some cases with the help of EU funds. Yet the added value of the policy at the EU level is significant: it provides a planning discipline and cycle largely protected from the whims of national political cycles; it guarantees investment finance over a medium-term perspective; it enables EU-wide priorities to be pursued, including transnational, cross-border and interregional projects and interests; and it facilitates an enormous exchange of experience and good practice. Moreover, much of the investment in the poorer regions is ultimately of great benefit to the wealthier regions.

Providing a positive return on investment

Like all elements of public spending – even capital investments – Cohesion activities will no doubt have to suffer their share of the impending cuts. What the champions of this policy need to remind the decision-makers of is that projects co-financed by the Structural Funds and the Cohesion Fund are designed to provide a positive socio-economic return, and be of net benefit for all project stakeholders and the wider community and economy. They are designed to deliver value-for-money to the taxpayer. This surely stands in sharp contrast to the multitude of expenditures that should come under close scrutiny, following the financial mismanagement of recent years. The underperforming and wasteful elements of public administrations, the liabilities of non-funded public sector defined benefit (final salary) pension schemes, unjustified early retirement ages and packages, tax evasion, welfare schemes which do not reward finding work, and – lest we forget – the massive emergency funding directed to the financial sector.

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NOTES

- * Robin Smail, Expert, European Institute of Public Administration, EIPA Maastricht
The author wishes to thank Michael Hill and Anton Schrag (both DG Regional Policy, European Commission) for their time in discussing the amending regulations.
- ¹ The European Economic Recovery Plan, COM(2008) 800, 26 November 2008.
- ² State aid refers to all public financial assistance to enterprises, which has an impact on competition in product and service markets.
- ³ Note that any *de minimis* aid that may have already been granted has to be subtracted from the €500,000. The *de minimis* rule means that all companies can receive lump sum grants of up to €200,000 over three years.
- ⁴ Commission communication "Cohesion Policy: investing in the real economy", COM(2008) 876/3, 16 December 2008.
- ⁵ Enabled under Article 14, Regulation 1269/99
- ⁶ Article 5, Council Regulation (EC) 284/2009, amending Regulation (EC) 1083/2006 (General Regulation), 7 April 2009.
- ⁷ Article 1(11), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ⁸ Article 1(13), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ⁹ Article 1(1), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ¹⁰ Council Regulation (EC) 284/2009, amending Regulation (EC) 1083/2006 (General Regulation), 7 April 2009.
- ¹¹ Article 1(1), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ¹² Article 1(14), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ¹³ The JASPERS facility is designed to prioritise the new Member States (EU12), but at the outset was in principle open to other countries covered by the Convergence objective (regions in which average GDP per capita is under 75% of the EU average).
- ¹⁴ Council Regulation (EC) 1341/2008, amending Regulation (EC) 1083/2006 (General Regulation for Structural Funds and Cohesion Fund), 18 December 2008.
- ¹⁵ Article 1(6), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ¹⁶ Regulation (EC) 396/2009, of the European Parliament and of the Council, amending Regulation (EC) 1081/2006 (European Social Fund)
- ¹⁷ Regulation (EC) 397/2009, of the European Parliament and of the Council, amending Regulation (EC) 1080/2006 (European Regional Development Fund)
- ¹⁸ Regulation (EC) 397/2009, of the European Parliament and of the Council, amending Regulation (EC) 1080/2006 (European Regional Development Fund), 6 May 2009
- ¹⁹ Regulation (EU) 437/2010 of the European Parliament and of the Council, amending Regulation (EC) 1080/2006 (ERDF), 19 May 2010. Published on 29 May 2010.
- ²⁰ Article 1(10), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ²¹ Article 1(10), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ²² Article 1(5), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ²³ Article 1(9), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ²⁴ Article 1(8), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ²⁵ Article 1(12), Regulation (EU) 539/2010 of the European Parliament and of the Council, amending Council Regulation 1083/2006
- ²⁶ Communications from the Commission COM, (2010)110, and COM (2010)360, both 31 March 2010.