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Cohesion Policy: Doing more with less

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Summary

EU cohesion policy aims to reduce economic, social and territorial disparities through investment programmes and projects aligned with EU strategic objectives and implemented under a unique model of multilevel governance. It accounts for a major share of the EU budget. This chapter reviews the evolution of cohesion policy over successive reform phases, how the policy is implemented, and the evidence for its effectiveness. It also discusses the different policy modes encompassed in the policy, and it reviews recent political developments relating to politicisation, Brexit and the sectoralisation of EU spending. The chapter concludes that the current debate over the resourcing, priorities and governance of cohesion policy for 2021-27 represents a new turning point in the prospects for the policy, following the strategic turns of 2006 and 2013 (Bachtler *et al.* 2013). The policy's importance is diminishing as a result of budgetary pressures, greater centralisation of political decision-making within the Commission, a fragmentation of the political constituencies for cohesion policy, and the dominance of non-spatial EU policy priorities with centralised delivery mechanisms.

Introduction

EU cohesion policy aims to strengthen economic, social and territorial cohesion by reducing territorial inequality and promoting 'harmonious development' at different spatial scales across countries and regions. The policy accounts for the second largest share of the EU budget (some €350 billion in 2014-20). While it represents less than 0.4 percent of EU GDP, the policy provides significant funding for public investment in economic development - equivalent to 8.5 percent of government capital investment in the EU over the 2015-17 period increasing to 41 percent for the less-developed EU13 countries.

Implementation is undertaken through 'shared management' between the Commission, member states and subnational authorities, involving thousands of implementing bodies and beneficiary organisations. Interventions are supported through a mix of funds to serve multiple EU objectives, and covering many areas of EU and domestic policy – infrastructure investment, business development, research and innovation, human resources, environmental sustainability, and poverty alleviation.

The significance of cohesion policy for academics and students of policy-making in the EU is threefold. First, it is the most redistributive EU policy area of the EU budget, and a core attribute of redistributive policies is the generation of conflictual politics over the size and allocation of funding. Second, it is the paradigm case of EU multilevel governance. The policy's partnership principle requires vertical and horizontal interactions between governmental and non-governmental actors at EU, national and regional levels in the design and implementation of programmes and measures with wider consequences for territorial relations. Third, the performance and effectiveness of the policy in contributing to its objectives of growth, convergence and regional development, as well as wider EU added value, are heavily contested.

The evolution of cohesion policy has witnessed a number of 'turning points' (Manzella and Mendez 2009). The landmark 1988 reform introduced the core governing principles of concentration, programming, partnership and additionality with a substantial budget. The next major turning point was the 2006 reform, which introduced a more strategic and performance oriented governing framework, which was further continued under the 2013 reform. For the 2021-27 period, we argue that the reform proposals represent another major turning point reducing the policy's importance and cohesion rationale through a diminished budget and redistributive focus, greater funding conditionality, and a stronger decision-making role for the European Council through EU budget negotiations.

This chapter explores the evolution of cohesion policy and contemporary developments for the future. The first section focuses on the phases of reform over the 40+ year history of the policy. A second section discusses the evolving modes of policymaking encompassed by the policy. The major recent political developments influencing the policy – politicisation, sectoralisation and Brexit – are reviewed in the third section. The chapter concludes with reflections on the policy's future, arguing that the reforms being undertaken for the 2021-27 mark a further crucial turning point in the position of cohesion policy in the EU polity.

From minor Fund to major instrument of policy and governance

Origins and the landmark reform

The European Regional Development Fund (ERDF) was established in March 1975. While the 1957 Treaty of Rome acknowledged regional disparities and a vague aspiration to reduce them, it did not provide for the establishment of regional policy instruments. There had been calls for the creation of a regional policy by the Commission and some member states throughout the 1960s. However, the main stimuli were twofold: early moves towards economic and monetary union (EMU), which was expected to increase regional disparities; and the first enlargement to Ireland and the UK, given that both countries were committed to the creation of a Community regional policy to address their development challenges and because of the UK government's aim to improve its budgetary balance with the Community (Flockton 1970; Wallace 1977).

The ERDF was initially a small fund and was controlled mainly by member states in accordance with their own regional policy approaches, with limited Community added value. The budget of the Fund was 1.3 billion European Units of Account over a three-year trial period (1975-8), representing around 5 per cent of the Community budget (Talbot 1977). Reforms in 1979 and 1984 and the creation of a new regional policy instrument (the Integrated Mediterranean Programmes, IMP) gradually increased the Fund's budget to some ECU 3 billion (almost 9 per cent of the Community budget), enhanced its Community orientation by granting the Commission more control, and provided a blueprint for the governance of the funds under a major reform in 1988 (Mawson *et al.* 1985).

In the context of major treaty reform, enlargement and the adoption of the single market programme, the 1988 reform marked the arrival of cohesion policy as a core EU policy in its own right underpinned by a Treaty commitment to cohesion, a substantial budget, and a common governance framework for all three Structural Funds: the European Regional Development Fund (ERDF); the European Social Fund (ESF); and the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) (Marks 1992). Building on the experience of the ERDF and IMPs, at the core of this governance framework were the principles of:

- *concentration* on less developed regions;
- *programming* through multiannual strategies for the 1989-93 period in line with the multiannual EU budget;
- *partnership* to involve subnational governments and economic and social stakeholders; and
- *additionality* to ensure EU funding did not substitute national funding.

Budgetary consolidation and preparing for enlargement

The timing of subsequent reforms – in 1994 and 1999 – was dictated by the EU's Multiannual Financial Framework (MFF), running over the 1994-99 and 2000-06 periods respectively (see Chapter 9). The deepening of economic integration had an important bearing on the financial aspects of the reform. The Maastricht Treaty of 1993 provided for the establishment of a single currency by 1999, established economic and social cohesion as a core Treaty objective, and created a new Cohesion Fund to support infrastructure development and macroeconomic convergence in the poorest member states. These commitments were reflected in a substantial financial boost to cohesion policy, doubling the 1994-99 budget relative to 1989-93. By contrast, for 2000-06 the cohesion policy budget remained relatively stable, reflecting fiscal consolidation efforts in the run-up to EMU, and to contain the anticipated costs of enlargement to Central and Eastern Europe.

The basic regulatory principles of the landmark 1988 reform were retained in the 1994 and 1999 reforms with some changes to respond to EU and national priorities. First, concentration on the poorest EU regions remained a core principle, but additional flexibility was granted to member states in the process of designating assisted areas inside the more developed regions. Second, the thematic scope and priorities of intervention were broadened for 1994, while increasing the focus on new EU priorities, e.g. sustainable development in both the 1994 and 1999 reforms (see Chapter 13) and employment in 1999. Third, the number of Community Initiatives was reduced, responding to criticism from member states about their administrative complexity. Fourth, programming procedures were streamlined and some management responsibilities were decentralised in response to criticism from member states, particularly under the 1999 reform. Lastly, the importance placed on improving the effectiveness and probity of expenditure increased significantly with strengthened monitoring and evaluation requirements, and the introduction of incentives and sanctions on performance and compliance (Mendez and Bachtler 2011).

The strategic and performance turns

The mid-2000s saw the start of a fundamental change in the positioning of cohesion policy within the EU budgetary and policy frameworks. The 2006 reform, and even more so the 2013 reform and the proposals for 2021-27, placed increasingly greater emphasis on Structural and Cohesion (Investment) Funds meeting wider EU objectives and required the policy to demonstrate its effectiveness more convincingly (see Table 10.1).

Table 10.1: Evolution of cohesion policy, 1988-2027

Period	EU context	Policy shift	Implementation shifts
1989-93	Single market programme. Enlargement: EU9➔EU12	Reform of the Structural Funds – integration into a 'cohesion policy'	Focus on poorest, least developed regions. Multiannual programming. Strategic orientation of investments. Involvement of regional and local partners (partnership principle). EU funding is additional to national expenditure
1994-99	Preparation for monetary union. Enlargement: EU12➔EU15	Creation of Cohesion Fund for poorest countries Creation of special objective for sparsely populated regions Doubling of resources	Greater flexibility for spatial coverage. Broadening of thematic priorities. Decentralisation of management responsibilities.
2000-06	Retrenchment in growth of spending. Enlargement: EU15➔EU25	Agenda 2000 – recognition of need to reform. Lisbon Strategy – shift of EU priorities to growth, jobs, innovation.	Decommitment rule (for faster spending). Stricter monitoring & evaluation rules. Emphasis on financial compliance (control and audit).
2007-13	Adapting to an enlarged EU. Enlargement: EU25➔EU27/28	Emphasis on policy effectiveness & added value. All regions eligible for support.	Alignment of cohesion policy objectives with EU goals. National strategic documents for cohesion policy spending. Ring-fencing of thematic expenditure. Strategic reporting Ex-ante financial compliance assessment
2014-20	Financial & economic crises. First reduction in EU budget. European Semester process.	Place-based approach. Europe 2020 strategy. Focus on policy performance.	Performance framework and results-orientation. Thematic concentration. Alignment with EU economic governance. Use of conditionalities on spending.
2021-27	White Paper on Future of Europe. Brexit.	Reduction in budget for EU cohesion policy. Influence of sectoral EU priorities. Links with EU economic governance.	Synergies between Funds/Policies Further thematic concentration (policy objectives). Mid-term review. Simplification of rules. Additionality principle discontinued.

The core strategic change under the 2006 reform of cohesion policy for 2007-2013 was to realign the policy with the EU's Lisbon agenda which had the stated aim of making the EU 'the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion', by 2010 (European Council 2000, Mendez, 2011). A new strategic planning system was introduced by requiring the design of National Strategic Reference Frameworks (NSRFs) in line with Community Strategic Guidelines (CSGs), links with National Reform Programmes, the earmarking of programme expenditure to specified expenditure categories, and reporting requirements (Bachtler *et al.* 2013).

Changes to the policy architecture included the discontinuation of Community Initiatives, apart from INTERREG (cross-border, transnational and inter-regional cooperation) which was subsumed within the new Territorial Cooperation Objective. Instruments linked to rural development (the European Agricultural Fund for Rural Development (EAFRD) replaced the European Agricultural Guidance and Guarantee Fund (EAGGF - Guidance Section)) and fisheries (Financial Instrument for Fisheries Guidance - FIFG) and were integrated into the CAP (see Chapter 8). There was further decentralisation of responsibilities to member states, notably in audit and through needs-based evaluation and a voluntary performance reserve, and wider application of proportionality to selected areas of management. Following the onset of the crisis in 2007-8, further regulatory changes in 2009 and 2010 aimed to accelerate spending by improving cash flow and by simplifying some administrative procedures.

The latest reform of cohesion policy in 2013 for the 2014-20 period was arguably the biggest reform since 1988, with significant changes to objectives, thematic focus, conditionality and governance (Mendez 2013). Cohesion policy objectives were aligned more closely with the

Lisbon agenda's successor strategy 'Europe 2020' through reinforced strategic programming under a Common Strategic Framework for all shared management Funds (renamed European Structural and Investment Funds - ESIF) and through stricter thematic concentration rules.

More controversially, macro-economic conditionality was extended from the Cohesion Fund to all Structural Funds empowering the Commission to propose a suspension of funding for breaches in fiscal deficit rules and, for the first time, to request a reprogramming of funding to support the implementation of macro-economic recommendations (see Chapter 7). This was driven by the Council (particularly Germany, supported by France) and parts of the Commission to promote greater fiscal and budgetary discipline in the aftermath of the Eurozone crisis, despite opposition from a number of member states, the European Parliament and the Committee of the Regions.

The performance orientation was enhanced significantly, in line with the proposals of the 'Barca Report', an independent study requested by the Commissioner for DG Regional Policy (DG REGIO) Danuta Hübner to provide recommendations on the future strategic direction of cohesion policy (Barca 2009). This included a stronger focus on results in the programme strategies; an obligatory performance reserve to reward the achievement of spending targets at the mid-point of the programme cycle; and the introduction of ex-ante conditionality requiring institutional, regulatory and strategic conditions to be met before releasing funds, such as having strategies in place for infrastructure or research and innovation investments. The role of place-based and localised instruments (sustainable urban and community-led local development strategies) and financial instruments (loans, equity etc.) has become more important. Lastly, financial management and control were strengthened along with some simplification.

Throughout the history of cohesion policy reform, the European Commission has been the key architect of reforms to enhance the added value of the policy often exercising strategic opportunism and policy entrepreneurship (Bachtler *et al.* 2013). The Commission has been supported by the European Parliament and the Committee of the Regions, which have been strong advocates of a well-resourced cohesion budget, strengthened and extended partnership with subnational actors in policy implementation, and the promotion of territorial cooperation and localised instruments for community economic development. The European Parliament and the Committee of the Regions have been highly critical of the increasing use of conditionality in cohesion policy as a tool to pursue EU fiscal and budgetary consolidation objectives, but they have been unable to resist reforms in this direction. While supportive of Commission efforts to increase the added value of cohesion policy, the Council has sought increased flexibility in strategic and operational governance requirements in successive reforms to simplify management and reduce administrative burden for beneficiaries of funding. However, such efforts have been offset by the need to respond to new policy objectives and perceived performance deficits as well as demands from the European Court of Auditors and the EP's budget control committee to reduce financial compliance weaknesses.

Policy modes: the core distributional mode and emergent modes

Wallace and Reh (Chapter 4) set out a typology of five EU policy modes. In a previous edition, Bache (2015) classified cohesion policy as a 'hybrid' case combining three of the modes of policy-making (Bache 2015): the community method; the distributional mode; and policy coordination. More recent cohesion policy-making developments are the rise of a new mode of ‘intensive transgovernmentalism’ linked to wider budgetary decision-making, and an emerging urban agenda under the policy coordination mode.

The *distributional mode* describes an approach to EU policy-making premised on multilevel governance, the empowerment of subnational actors, redistributive bargaining by member states over the budget, and an increasing legislative role for the EP. The evolving system of multilevel governance at the implementation stage is reviewed in more detail in the next section. Here, we focus on the policy-making stage both in terms of budgetary redistribution and legislative decision-making. Budgetary redistribution is a defining feature of cohesion policy’s rationale. It is the only EU budget heading that is allocated largely according to a country’s wealth (GDP) so that there is clear redistribution towards poorer member states and regions. All other spending headings, such as the dominant agricultural heading and the growing competitiveness heading, favour wealthier countries.

The politics of redistribution in cohesion policy were evident in the policy’s use as a ‘side-payment’ in budget negotiations throughout the 1980s and 1990s to ‘buy support’ from poorer member states for further integration (the single market, economic and monetary union and enlargements) by providing funding transfers to counter competitive disadvantages and adjustment costs that could arise from integration. By contrast, the last two reforms in 2007 and 2013, and the 2018 proposals for 2021-27 have seen increased prioritisation of non-cohesion headings and instruments under the MFF putting downward pressure on cohesion funding and redistribution, and increasing the tensions between net payers and net beneficiaries (see Table 10.2).

Table 10.2: Scale of EU budget and share for Cohesion and Agricultural Policies

Year		Percentage of European Budget[a]		Size of EU Budget[a] as % of GNP or GNI
		Cohesion Policy	Common Agricultural Policy	
Annual budgets	1965	1.4 [b]	8.5	0.11
	1975	6.2	70.9	0.53
	1980	11.0	70.9	0.80
	1985	12.8	68.4	0.92
Multiannual financial frameworks	1988-1992	22.4	56.2	1.20
	1993-1999	34.1	46.9	1.25
	2000-2006	34.7	44.3	1.09
	2007-2013	35.7	42.3	1.12
	2014-2020	33.9	38.9	1.00

Source: European Commission (2000) The Community Budget: Facts in Figures, 2000; European Commission (2007) EU Budget 2006—Financial Report; European Commission (2014) European union Public Finance, Fifth Edition;

Notes: (a) Outturn in payments for annual budgets 1965-1985, appropriations for commitments for multiannual Financial Perspectives from 1988 onwards. GNP from 1988. (b) The 1965 budget corresponds to the ESF created in 1962, The 1975 and subsequent budgets include the newly created ERDF as well as the other Structural Funds (ESF and EAGGF guidance section).

It is notable that the proportion of funding allocated to the less-developed EU regions is now at an historic low (see Table 10.3). In 1989-93, 73.2 per cent of funding was allocated to so-called 'Objective 1' regions, a figure that fell to 59 per cent in 2007-13 and most recently 53.5 per cent for 2014-20. Until the 2000-06 period, other regions were designated only if they were experiencing problems of industrial restructuring or rural development. From 2007, all regions became eligible for Structural Funds, making funding available to even the most prosperous parts of the EU. This has continued into 2014-20, but combined with a major increase in the proportion of the budget allocated to Transition Regions – including those in Belgium, France and the United Kingdom which had never previously been designated as less-developed. Furthermore, the Commission has proposed to discontinue the additionality principle in 2021-27, a core governing principle under the 1988 reform that committed member states to maintain public investments (in less-developed regions only under the 2006 reform) above and beyond cohesion policy funding. Together these shifts from the mid-2000s onwards indicate that regional disadvantage is playing a diminishing role in the spatial coverage and investment capacity of cohesion policy.

Table 10.3: Distribution of funding between categories of region, 1989-2020 (%)

	1989-93	1994-99	2000-04	2004-06	2007-13	2014-20
Less Developed Regions	73.2	61.6	63.6	63.2	59.0	53.5
Transition Regions	0.0	0.2	2.6	2.0	7.5	10.8
More Developed Regions	23.6	27.4	24.3	19.1	12.9	16.5
Cohesion Fund (CF)	3.1	10.8	9.4	15.7	20.7	19.2
LDR and CF	76.4	72.4	73.1	78.9	79.7	72.8
Total	100	100	100	100	100	100
EU	EU12	EU15	EU25	EU25	EU27	EU28

Source: European Commission (2014) *Investment for Jobs and Growth,* Sixth report on economic, social & territorial cohesion.

A second trend is the increased recourse to budgetary conditionality by making cohesion policy payments to member states conditional on compliance with wider EU fiscal and economic governance rules (Coman 2018; Bachtler and Mendez 2020). Efforts to extend conditionality to the acceptance of migrations quotas during the migration crisis and compliance with the rule of law in 2021-27 have been politically contentious and divisive (Box 10.1).

Box 10.1: Rule of Law Conditionality

Conditionality linked to the rule of law is a controversial proposal that has received considerable media attention in the context of debates about a weakening of democratic institutions in Poland and Hungary. In 2018, the Commission tabled a formal proposal on 'the protection of the Union's budget in case of generalised deficiencies as regards the rule of law in the Member States' (COM 2018/383), applicable to various EU instruments under both centralised and shared management. In the case of shared management funds, a range of financial sanctions are proposed where there is a risk of a generalised deficiency in the rule of law in a member state:

- a suspension of the approval of one or more programmes or an amendment thereof;
- a suspension of commitments;
- a reduction of commitments, including through financial corrections or transfers to other spending programmes;
- a reduction of pre-financing;
- an interruption of payment deadlines;
- a suspension of payments.

The sanctions would be applied where the deficiency risks affecting EU financial management and interests such as:

- public procurement or grant procedures;
- the proper functioning of investigation and public prosecution services in relation to the prosecution of fraud, corruption or other breaches of EU budget law;
- the effective judicial review by independent courts of actions or omissions by the authorities referred to in
- the prevention and sanctioning of fraud, corruption or other breaches of EU law relating to the implementation of the EU budget, and the imposition of effective and dissuasive penalties on recipients by national courts or by administrative authorities;
- the recovery of funds unduly paid; and
- the effective and timely cooperation with the EU fraud and prosecution offices.

The Commission would propose such measures to the Council, which would make a decision based on a reversed qualified majority vote, and the measures would be lifted once the deficiency has been remedied or ceases to exist.

The rise of conditionality in cohesion policy since the crisis has exposed new elements of '*intensive transgovernmentalism'* (Chapter 4), given the more active involvement of the European Council supported by the Council with a more limited role for the Commission and the EP (Bachtler and Mendez 2020). In the 2013 reform this was reflected in the stronger role of the European Council in shaping the cohesion policy regulatory framework by issuing conclusions on the MFF that impinged directly on the competence of the co-legislators

(Council and Parliament) over the substance of the cohesion policy regulatory package. This related mainly to the provisions on macroeconomic conditionality, eligibility, the links with the Connecting Europe Facility, the performance reserve and co-financing rates. The EP has been critical of the increased activism of the European Council in setting the parameters of cohesion policy budgetary and regulatory decisions as part of MFF negotiations, which it argues has impinged on the EP's co-legislative competences (Bachtler and Mendez 2016; see also Chapter 8 for similar trends in the Common Agricultural Policy).

The *community method* is also a key mode of cohesion policymaking. The European Commission's power of initiative grants it sole responsibility for drafting legislative proposals, which has provided it with significant agenda-setting power to determine reform principles and content. The Commission begins the process by setting out proposals for reform as part of the negotiations on the EU budget for the period ahead covering all EU budgetary headings, of which cohesion policy is one; and legislative proposals for the implementation of cohesion policy instruments, in the form of draft regulations. Once the Commission has published its proposals, the negotiation and adoption of the budget and regulations is the responsibility of the Council of the European Union (CEU) and European Parliament (EP). Since the 2009 Lisbon Treaty, the EP has full co-decision powers over all the cohesion policy regulations providing it with greater scope to shape legislative outcomes, although it remains the junior partner over financial matters (Mendez 2011; Bachtler *et al.* 2013).

The *policy coordination mode* is a less documented but increasingly salient mode in two main areas of cohesion policy. The first is coordination of member states' own economic policies with cohesion policy. While such coordination was always an EU Treaty commitment, formal mechanisms for coordination were introduced only through the EU's Lisbon agenda, its successor Europe 2020 strategy and the overarching EU economic and fiscal policy coordination cycle (the European Semester) which issues Country-Specific Recommendations (CSRs) (see Chapter 7).

EU cohesion policy has been increasingly integrated into these policy coordination mechanisms through requirements to address relevant CSRs in cohesion policy programming and implementation, and to earmark funding to EU priority themes. For the first time, the 2019 European Semester country reports included a section dedicated to cohesion policy providing Commission views on priority investment areas and conditions for effective implementation of 2021-2027 cohesion policy in each member state. This realignment arguably weakens the emphasis on cohesion in terms of reducing regional disparities given the lack of a spatial focus to EU economic and fiscal policies and their centralised mode of operation (Begg *et al.* 2013; Mendez 2013).

The second main area of policy coordination is in urban and spatial planning policy coordination, which operates outside of the Community Method in an intergovernmental setting (Faludi 2004). The increasing importance of an EU Territorial Agenda addressing urban and spatial policies in a coordinated and multilevel manner has received impetus with the addition of a territorial dimension to EU cohesion objectives under the Lisbon Treaty. The renaming of DG REGIO as the 'Directorate-General for Regional *and Urban* Policy' (emphasis added) in 2012 is also indicative of this shift. Yet, the EU has no formal competence in the field of urban development or spatial planning. Resembling the open method of coordination in other policy domains lacking EU competence, intergovernmental dialogue and peer review are the main coordination mechanisms involving periodic informal meetings of ministers for urban and spatial policies with technical support provided by various working groups and networks. The Territorial Agenda 2020 approved under the Hungarian EU Presidency in 2011, and its ‘renewal’ under the Austrian, Romanian and Finnish EU Presidencies in 2018-19, have set out policy frameworks for territorial cohesion but implementation is dependent on (uneven and inconsistent) member state commitment and action. In the urban context, a key milestone was the 2016 Pact of Amsterdam establishing the Urban Agenda for the EU, which set out a series of actions delivered through thematic partnerships. However, a coherent EU urban policy remains absent owing to the lack of a firm EU legal framework and the fragmented urban institutional and policy landscape across EU member states (Atkinson and Zimmermann 2016).

The distributional mode as a shifting system of multilevel governance

Cohesion policy is one of the main EU policy areas implemented through ‘shared management’, along with the Common Agricultural Policy (see Chapter 8) and the Common Fisheries Policy. As noted above, the budget for cohesion policy, the allocations to member states and the eligible areas are proposed by the Commission, and decided by the Council of Ministers, subject to the consent of the European Parliament as part of the negotiations on the MFF (see Chapter 9). The regulatory framework is again proposed by the Commission and co-legislated by the Council and Parliament. Implementation of cohesion policy is the responsibility of member states through a mix of national and regional multiannual funding programmes, with the Commission ensuring compliance through a mix of conditionalities and sanctions.

The balance of decision-making power between the Commission and member states, and between national and sub-national actors within member states, has been extensively studied over the 30-year life of cohesion policy (Bachtler *et al.* 2013). At the policy design stage, the development of policy proposals by the Commission shifted over time period from a closed and relatively secretive process within the main Directorates-General for Regional and Urban Policy (DG REGIO) and Employment and Social Affairs (DG EMPL), to a more open process where DG REGIO 'conscripted' member state officials through various fora such as 'high-level groups' to debate and test policy proposals. Within the Commission, DG REGIO was often highly influential as an 'early mover' of policy ideas and concepts (notably for the 2005 and 2013 reforms) which subsequently shaped – to a significant degree - the content of the budgetary and policy proposals in the MFF. The reverse was true in the development of proposals for the 2021-27 reform (European Commission 2018), which was conducted centrally by a small group within the Juncker Commission, with a much more restricted role for DG REGIO and less accessibility for member state officials.

Both during the process of policy development, and more so during the negotiation phase, the main cleavage among member states has historically between so-called 'net payers' (those paying more into the EU budget than they get back in receipts) and the 'net beneficiaries'. The composition of the two groups has shifted over time in the MFF. Among the net payers, the UK was traditionally the most 'hard-line' in pushing for a lower EU budget and less spending on cohesion policy during the 2000s, supported most prominently by The Netherlands and Sweden, and less publicly by Austria and Denmark (Bachtler *et al.* 2013). Among the net beneficiaries, the southern EU member states, notably Spain and Italy, tended to be most active in promoting more spending up to 2005, a role also taken on by Poland thereafter. Alliances among member states have tended not to be durable, with each country eventually seeking the best deal for itself in the final stages of the negotiations (Allen 2010). The exception has been the group of Central and Eastern European countries that joined in 2004 and 2007.

With respect to the implementation of cohesion policy, academic interest was driven by the landmark reform of the Structural Funds in 1988 and the perceived reshaping of territorial governance with a greater role for the Commission and sub-national actors. Marks (1993: 392) identified the Structural Funds as 'the leading edge of a system of multilevel governance that 'pulled some previously centralized functions of the state up to the supranational level and some down to the local/regional level' representing a challenge to the centralized approach to decision-making within some member states and state-centric accounts of EU decision-making.

The challenge for research is that the relationship between the Commission and member states is constantly evolving, with a regulatory framework that is adapted in each funding period in the light of implementation experience and external pressures (from the Council, Parliament or European Court of Auditors). Further, the regulations invariably leave scope for interpretation, with member states frequently requesting advice from the Commission. This in turn leads to guidance from the Commission, which national and regional authorities feel obliged to follow (i.e. a form of soft law).

Under the early regulatory frameworks for 1989-1993 and 1994-99, member states had considerable leeway to determine how, when and where the funding was allocated. The Commission was mainly entrusted with ensuring that member state programmes had a justified development strategy, a financial plan and mechanisms for ensuring funding was spent on eligible expenditure. The subsequent regulations for 2000-06, 2007-13 and 2014-20 progressively gave the Commission more control over different aspects of implementation as it sought to enhance its strategic role in shaping implementation outcomes and counter criticism about weak policy performance and value for money, especially by net payer countries (Mendez and Bachtler 2011; Bachtler and Ferry 2013; Bachtler and Mendez 2020).

In the 1999 regulations, the European Commission sought to accelerate the pace of spending with the introduction of the decommitment rule, requiring that funding committed to projects was paid out within 2-3 years or else would be lost to the programme. A series of new regulations from 2003 onwards tightened control of financial management and audit to prevent the high level of compliance mistakes ('irregularities') found in audits of cohesion policy expenditure by the European Court of Auditors. In 2006, the first EU regulations were introduced to 'earmark' specific thematic priorities – reflecting overall EU objectives - on which member states were required to spend a minimum percentage of funding allocations, a measure taken a step further in the 2013 regulations which set out a list of 11 thematic objectives on which funding had to be concentrated, which have been repackaged into five policy objectives for 2021-27 (see Table 10.4). Lastly, the 2013 regulatory framework incorporated a wide-ranging set of obligations relating to programme performance – the need to justify spending according to an 'intervention logic', the application of performance targets, and the specification of policy and institutional pre-conditions that needed to be in place (*ex ante* conditionalities) before programmes were approved by the Commission.

Table 10.4: Cohesion policy objectives

2014-2020 Thematic objectives	2021-2027 Policy objectives
1. strengthening research, technological development and innovation; 2. enhancing access to, and use and quality of, ICT; 3. enhancing the competitiveness of SMEs, of the agricultural sector (for the EAFRD) and of the fishery and aquaculture sector (for the EMFF); 4. supporting the shift towards a low-carbon economy in all sectors; 5. promoting climate change adaptation, risk prevention and management; 6. preserving and protecting the environment and promoting resource efficiency; 7. promoting sustainable transport and removing bottlenecks in key network infrastructures; 8. promoting sustainable and quality employment and supporting labour mobility; 9. promoting social inclusion, combating poverty and any discrimination; 10. investing in education, training and vocational training for skills and lifelong learning; 11. enhancing institutional capacity of public authorities and stakeholders and efficient public administration	1. a smarter Europe by promoting innovative and smart economic transformation; 2. a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management; 3. a more connected Europe by enhancing mobility and regional ICT connectivity; 4. a more social Europe implementing the European Pillar of Social Rights; 5. a Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives.

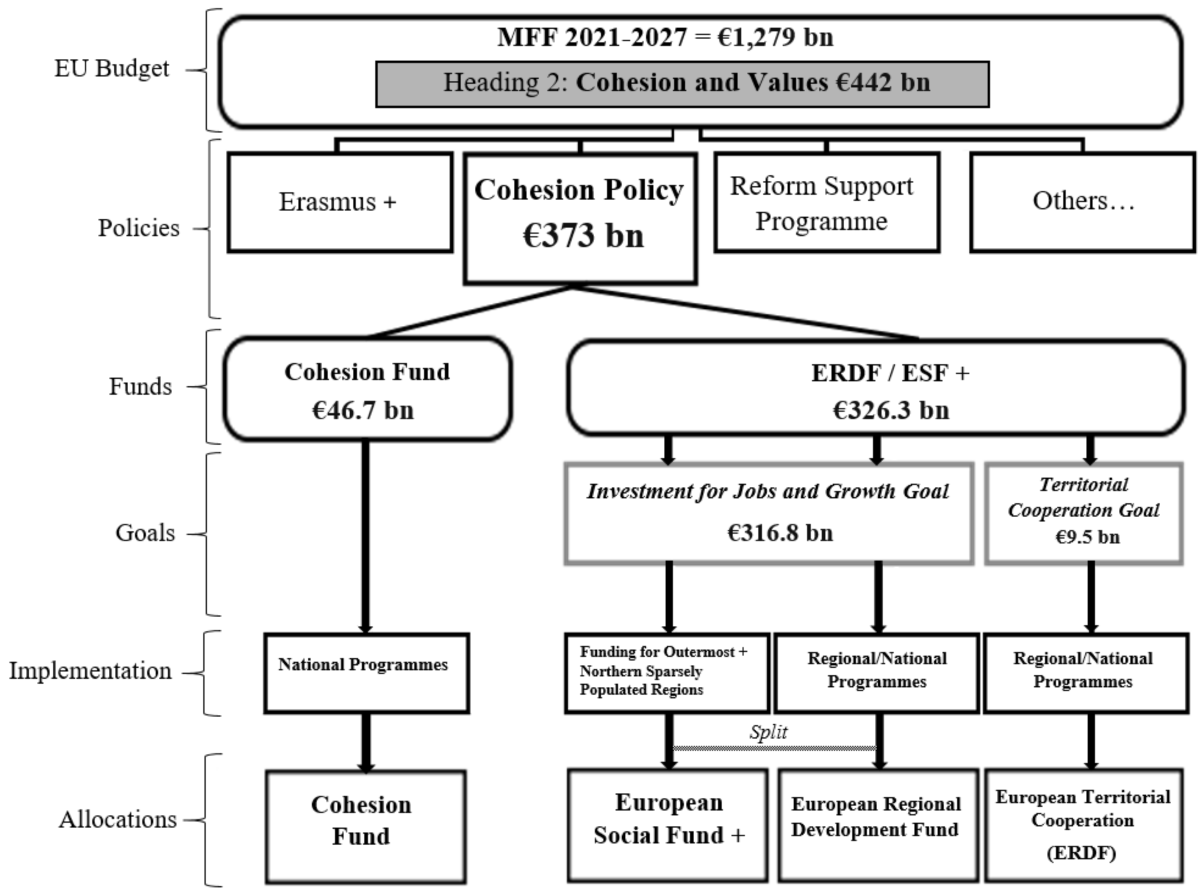
Source: https://ec.europa.eu/regional_policy/en/

Research during the 1990s sometimes sought to assess changes in regulatory frameworks in terms of Commission versus member state gains or losses of influence. For example, the 1994-99 regulations were presented as a 'renationalisation' of the policy in some cases (Hooghe and Keating 1994). In fact, it was truer to say that the locus of Commission influence shifted over time, moving from decisions on *financial inputs* in the 1990s to *implementation* during the 2000s to *outcomes* in the 2010s (Bachtler and Mendez 2007). In the long-term there has also been something of a 'layering' of regulatory requirements, as shown in Table 10.1, that have built up a substantial administrative compliance obligation for national and regional authorities (Mendez and Bachtler 2011; 2017).

Member state resistance to the scale and scope of regulations has led to growing pressure on the Commission for the ‘simplification’ of rules, pleas for ‘differentiated implementation’ (meaning fewer regulatory *obligations*) from member states receiving smaller amounts of funding, and threats (that have so far not materialised) from some member states to withdraw from the policy due to ‘high administrative cost’ (see Chapter 8 for similar trends in the Common Agricultural Policy). The establishment of a High-Level Group on Simplification in 2015-17 was a high-profile effort by the Commission to respond to these concerns, followed by a rationalised set of regulatory proposals for 2021-27.

The ‘programming principle’ requires member state authorities at the start of each funding period (currently with a duration of seven years) to draw up multiannual programmes setting out their strategic objectives and priorities for the use of funding – in areas such as business development, infrastructure, RTDI, human resources and environment. They also specify the management systems for allocating the funding to ‘beneficiaries’ and the financial control systems for ensuring the correct use of expenditure. Following adoption by the Commission, the ‘managing authorities’ designated by member states to implement the programmes then allocate funding to eligible projects up to the end of the funding period, with a further 2-3 years thereafter for expenditure to be paid out. The structure of budget headings in the MFF (proposed for the 2021-27 period) and its allocation to funds and then programmes are shown in Figure 10.1.

Figure 10.1: EU budget and cohesion policy framework



Under the so-called 'partnership principle', the cohesion policy regulations require that national and regional development programmes are designed and implemented through a collaborative process involving authorities at regional and local level, economic and social partners and organisations from civil society to ensure that interventions are adapted to regional and local needs. The range of partner types to be involved has expanded over time in EU regulations, and the latest reform in 2013 introduced a code of conduct to encourage more active participation of stakeholders.

Although partnership applies to all stages of the programme implementation process, the most important element is arguably the participation of regional and local authorities (and non-governmental actors) in so-called 'monitoring committees' which member states are required to put in place to ensure that cohesion policy funding is correctly implemented. The practice varies significantly across (and within) member states determined mainly by national institutional structures and traditions (Bache 2015).

In the early years of the policy, the regulatory provisions made for involvement of regional and local authorities was seen as a radical step. Leonardi and Nanetti (1990) argued that the increased role for regions meant that they were 'no longer excluded from direct participation in the process of European integration'. However, participation does not necessarily translate into influence. Some have argued that central governments remained the dominant actor with a 'gatekeeping' role between EU pressures and domestic policy and institutional change (Anderson, 1990; Pollack, 1995; Allen, 2005; Bache, 1998, 1999). It was recognised early on that there were significant variations in sub-national involvement in cohesion policy across countries – and across different stages of the programming cycle – reflecting the influence of national systems of territorial relations (Hooghe 1996; Marks 1996). Regions that were already strong domestically, as in federal Belgium and Germany, were more able to take advantage of new structural-fund opportunities. Research on the Europeanisation of territorial governance in Central and Eastern Europe in the 2000s found that the impact of the partnership principle on multilevel governance was limited owing to centralised state traditions and a lack of capacity at subnational level (reviewed in Bache 2015; see also Bachtler and McMaster 2006; Bachtler *et al.* 2014; Dabrowski 2014).

National government ministries of finance, economy or regional development, or designated development agencies, are responsible for managing or coordinating implementation in most countries. In some centralised countries (as in Greece and Portugal), national management is organised through regional offices of the state. Only in Belgium, France, Germany, Italy, the Netherlands, Poland and the UK is there significant devolution of management to regional self-governments (or city authorities in a few cases, such as Prague and Rotterdam). Elsewhere, regional authorities are involved as 'intermediate bodies' with delegated authority for functions such as project generation and selection as in Romania or Spain.

These implementation arrangements are not static. For example, Poland progressed from having a series of 'thematic' programmes and a single 'integrated regional programme' in 2004-06, to having decentralised programmes run by regional offices of the State (*voivods*) in 2007-13, to devolved programmes managed by regional self-governments in 2014-20. France has also progressively transferred the management of cohesion policy from prefectures to regional councils. The Czech Republic regionalised cohesion policy management for 2007-13 but then recentralised it for 2014-20. A process of centralisation and rationalisation of cohesion policy over time is also evident in Denmark, Finland and Sweden as funding allocations to these countries has declined.

Controversies and challenges

The performance and effectiveness of cohesion policy has been a subject of controversy throughout the policy's history, partly due to the methodological difficulties in establishing the contribution of the policy to growth and convergence across the EU. This has increased the pressure on the Commission to improve the evidence base for its assessments and the policy's performance orientation. For the 2021-27 period, the major political developments influencing the reform of the policy are politicisation, sectoralisation and Brexit. These challenges and are reviewed in turn.

Policy controversy over effectiveness and added value

The effectiveness of cohesion policy has been fertile ground for research and debate for much of the life of the policy. In terms of the politics of cohesion policy, the focus on effectiveness is attributable to three factors (Bachtler *et al.* 2013). First, the significant increases in the EU budget agreed in 1988 and 1992, and subsequent smaller increases in 1999 and 2005, raised the net budget contributions for richer member states, especially Germany, the Netherlands and the UK and (from 1995) Austria and Sweden. Second, the experience of implementing the Funds in 1989-93 and 1994-99, and more so in later periods, was perceived to be increasingly complex and bureaucratic by member states, yet the evidence for policy outcomes was uncertain and contested, with limited monitoring and evaluation data to demonstrate the impact of the Funds. Third, in the course of the 2000s, successive Commission Presidents sought to redirect the EU policy focus away from so-called ‘old policies’ (cohesion policy, CAP) and towards so-called competitiveness policies, such as R&D, initially under the Lisbon Strategy and then its successor, Europe 2020. Given the poor performance of the EU in meeting targets for growth, this argument had considerable resonance across the EU institutions and in some member states and was justified in part by perceived weaknesses in the performance of cohesion policy.

These factors focused policy-makers’ attention on the efficiency and effectiveness of cohesion policy, specifically whether economic and social cohesion of the EU had increased and whether any improvements could be attributed to the Structural and Cohesion Funds. However, for much of the period of the policy – certainly up to the mid-2000s – academic research and evaluation of the impact of the Funds faced major methodological challenges notably the poor availability of regional data on socio-economic indicators and cohesion policy spending, and the difficulty of comparing outcomes with any genuine counterfactual

(Polverari and Bachtler et al 2014; Davies 2017). The main macroeconomic models applied to ESIF funding by the Commission – QUEST, HERMIN and RHOMOLO – tended to find positive effects, especially in the member states where the Funds account for a significant percentage of domestic GDP. Econometric regression analyses – assessing the effect of the Funds on GDP growth or employment – produced much more varied results, some finding effects on convergence but others showing little or no impacts depending on the spatial scale or time period studied. Micro-economic studies examining the leveraging of private sector investment, business development or net jobs creation also produced differing results. Given the conflicting results it was difficult to draw definitive conclusions (Ederveen *et al*. 2002; Sapir *et al*. 2003: 78), although much of the research indicated that performance was influenced by the investment mix of Structural Funds programmes and the quality of institutional capacity. The Commission also sought to widen the terms of the debate by referring to the 'added value' of the policy, which encompassed qualitative aspects of the policy's implementation such as the benefits of multiannual planning and partnership, for which there was some evidence of influence on domestic policy thinking and practice (Bachtler *et al.* 2013).

From the mid-2000s, a major effort was led by DG REGIO in the Commission to turn around the performance of the policy and the evidence base of the assessments. Substantial investment was made in evaluation, focusing on improving the quality of data collated by member state authorities, better evaluation methods, and a much wider range of evaluation research. Performance was given a higher profile, with the introduction of a performance framework in the 2013 reforms, and so-called '*ex ante* conditionalities' required member states to put in place laws, strategies and institutional arrangements that would improve the policy context and administrative capacity for managing the Funds effectively.

In part this has been successful; much of the more recent research has concluded that the Funds have a positive impact on national and regional economic development (Bachtler *et al.* 2017; Davies 2017).

Changing political context

There are three major political developments in the EU with important consequences for cohesion policy. The first is the rising politicisation and indeed contestation of policymaking in the EU. A tendency for policy elites to ignore 'places that don't matter' has contributed to a wave of political populism with strong territorial foundations (Rodriguez-Pose 2018). Accordingly, it is argued that the promotion of better territorial development policies that tap potential and provide opportunities to those people living in 'left behind' places is needed to counter the wave of anti-EU populism (Rodriguez-Pose 2018). However, this has not translated into an EU commitment to strengthen the strategic role and financial capacity of cohesion policy. In fact, the White Paper on the Future of Europe mooted three (out of five) scenarios where cohesion policy would be rationalised (European Commission 2017).

Cohesion policy decision-making has become more politicised in the post-crisis era, and public opinion is playing a more important role in the policy process. While the negotiations of EU cohesion allocations and net budgetary balances are always politicised, the level of political division among member states and across EU institutions surrounding cohesion funding was compounded in the debate on the 2021-27 EU budget as attempts were made to link allocations to wider macroeconomic and political (migration and rules of law) goals. Analysis of media stories on cohesion policy over time shows that news coverage of funding conditionality has increased and is largely negative in tone (Mendez *et al*., 2020). Further, there is evidence that public opinion is having an impact on decision-making. The

Commission's protracted decision to refrain from suspending cohesion funding to Spain and Portugal in 2016 for breaches in fiscal rules under the new macro-economic conditionality rules was motivated in part by concerns about negative political backlashes in a context of deteriorating trust in the EU.

The second major political development is Brexit, which has major budgetary implications. The loss of a net payer involves substantial constraints on the scale of the MFF. Commission proposals to maintain spending in 2021-27 at s similar level to 2014-20 and to phase out budget rebates imply a sizeable increase in net payments of other, mainly richer countries. There are also changes in the dynamics of budgetary negotiations as other net payers (The Netherlands, Sweden, Denmark), able in the past to let the UK take the lead in calling for budgetary restraint on the size of the MFF and Cohesion budget heading, have been more prominent early on in the MFF negotiations.

Lastly, there is the question over post-Brexit participation of the UK in cohesion policy. Involvement in the Northern Ireland PEACE programme co-funded through cohesion policy under its European Territorial Cooperation strand of funding would continue under the terms of the draft EU-UK Withdrawal Agreement. However, potential UK involvement in other EU territorial cooperation programmes, such as INTERREG promoting inter-regional cooperation across European regions, is still to be decided.

The final major political development is the de-sectoralisation of EU spending.
Under the Juncker Commission, administrative reform led to a centralisation of political decision-making within the Commission, focused on the Cabinet of the Commission President and Vice-Presidents, which weakened the political profile, influence and autonomy

of cohesion policy. This limited the scope for manoeuvre by the Commissioner for Regional Policy to drive the agenda for cohesion policy reform in 2021-27 and the policy is increasingly becoming a delivery vehicle for wider EU thematic objectives under the strapline of modernisation and the pursuit of synergies across budget headings. In the Commission's proposals for the 2021-27 MFF, there is a clear shift in priority from shared management to centrally managed policies to provide more scope for Commission influence over spending (Bachtler *et al.* 2019).

Conclusions

This chapter has discussed the evolution of cohesion policy over successive reform phases and explained how the distributional mode is institutionalized and the evidence for its effectiveness. It has also discussed the different policy modes encompassed in the policy and reviewed recent political developments. This final section reflects on the implications for the future role of cohesion policy in EU policymaking.

Taking the long view, it can be argued that the current debate over the resourcing, priorities and governance of cohesion policy for 2021-27 represent a new turning point in the prospects for the policy going beyond the strategic and performance turns in 2007-13 and 2014-20. In purely budgetary terms, the proposed funding of cohesion policy after 2020 – with a projected level of commitments of over €280 billion - would suggest that the policy remains in good health. The MFF recognised that the policy is largely effective in promoting cohesion, and that the less-developed countries and regions have a continued need for the investment supported through the Funds.

There are, however, three factors which indicate a diminution in the importance placed on the policy. First, the recent centralisation of political decision-making within the Commission has severely weakened cohesion policy in two ways: by deliberately restricting the room for manoeuvre of the Commissioner for Regional Policy (who was able to initiate and drive reforms undertaken in 2005 and 2013); and by effectively pushing proposals to shift resources from shared management to centrally managed policies. Further, it is remarkable that the increasing profile of inequality in Europe – and its obvious territorial dimension in both political and economic terms – is not reflected in Commission strategic planning. Insofar as the Commission is concerned with cohesion - for example in the White Paper on the Future of Europe (European Commission 2017) or the Commission's contribution to the EU's Strategic Agenda 2019-2024 (European Commission 2019) - it is with social cohesion not territorial cohesion.

Second, there has been a fragmentation of the political constituencies for cohesion policy at EU level and in the member states. Within the Commission, it is notable that the Commissioners and Directorates-General responsible for Employment & Social Affairs and for Agriculture & Rural Development have sought to separate their Funds away from the ERDF, wholly so in the case of the EAFRD (continuing a process already evident in 2013) and partially so in the case of the ESF+. This undermines one of the central pillars of the 1988 reform, which introduced a more coordinated approach to cohesion across all three funds.

Across the member states, the united approach of the Central and Eastern European countries to budgetary and regulatory reform under Polish leadership has been damaged by the poor relations of both Poland and Hungary with the Commission and some west European member states. The same is true to a lesser extent in southern Europe: Italy is no longer the strong ally of the Commission and advocate for cohesion policy that it was in 2013.

Moreover, with the loss of UK budget contributions, the net payers are becoming more assertive about the increased costs of EU spending – especially Germany, the Netherlands and Sweden – exacerbated by the Commission's proposed phasing out of rebates. A smaller EU budget in 2021-27 will almost certainly mean disproportionate cuts to cohesion policy and the CAP.

Lastly, EU policy priorities are primarily sectoral or non-spatial. Much of the focus at EU level is on completing economic and monetary union and building new or expanded policies for climate change, technology, defence, immigration, and overseas development. Cohesion policy, along with the CAP, has been repeatedly termed an 'old policy' despite its contribution to key EU objectives relating to regional innovation, connectivity and the energy transition. The main advantage of cohesion policy is that it has a governance system able to deliver on such EU priorities, but its role is increasingly been prescribed top down, weakening the ability of countries and (especially) regions to use the Funds for development opportunities and needs that are seen as locally relevant. Perhaps the main challenge, though, comes from the future development of European economic governance for the Eurozone (see Chapter 7) where some form of territorial compensation mechanism to deal with the effects of asymmetric shocks is likely to be needed. This would pose fundamental questions about the scope and relevance of cohesion policy.

Further Reading

EU cohesion policy is a constantly evolving policy and is closely inter-twinned with EU budgetary reform. Bachtler *et al.* (2013) provide a comprehensive analysis of the history and relationship between EU budget and cohesion policy reform, including an in-depth analysis of the negotiation of the 2006 reform. For historical accounts of the implementation of policy principles linked to debates on supranationalism and intergovernmentalism, see Bache (2015) on ‘partnership’ and ‘additionality’, and Bachtler and Mendez (2007) on the ‘concentration’ and ‘programming’ principles. The classic and foundational study of the partnership principle and the impact on multilevel governance is the edited volume by Hooghe (1996). Further contributions to the multilevel governance debate in Central and Eastern and Southern Europe include Bachtler and McMaster (2008) and Bache and Andreou (2010). The ‘Barca Report’ (Barca 2009) is a comprehensive study of the place-based rationale of cohesion policy from political-science, economic-geography and applied policy analysis perspectives. A more recent and up-to-date contribution by Mendez *et al.* (2019) analyses the Commission’s reform proposals for 2021-2027 and the key reform themes on the future agenda.

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