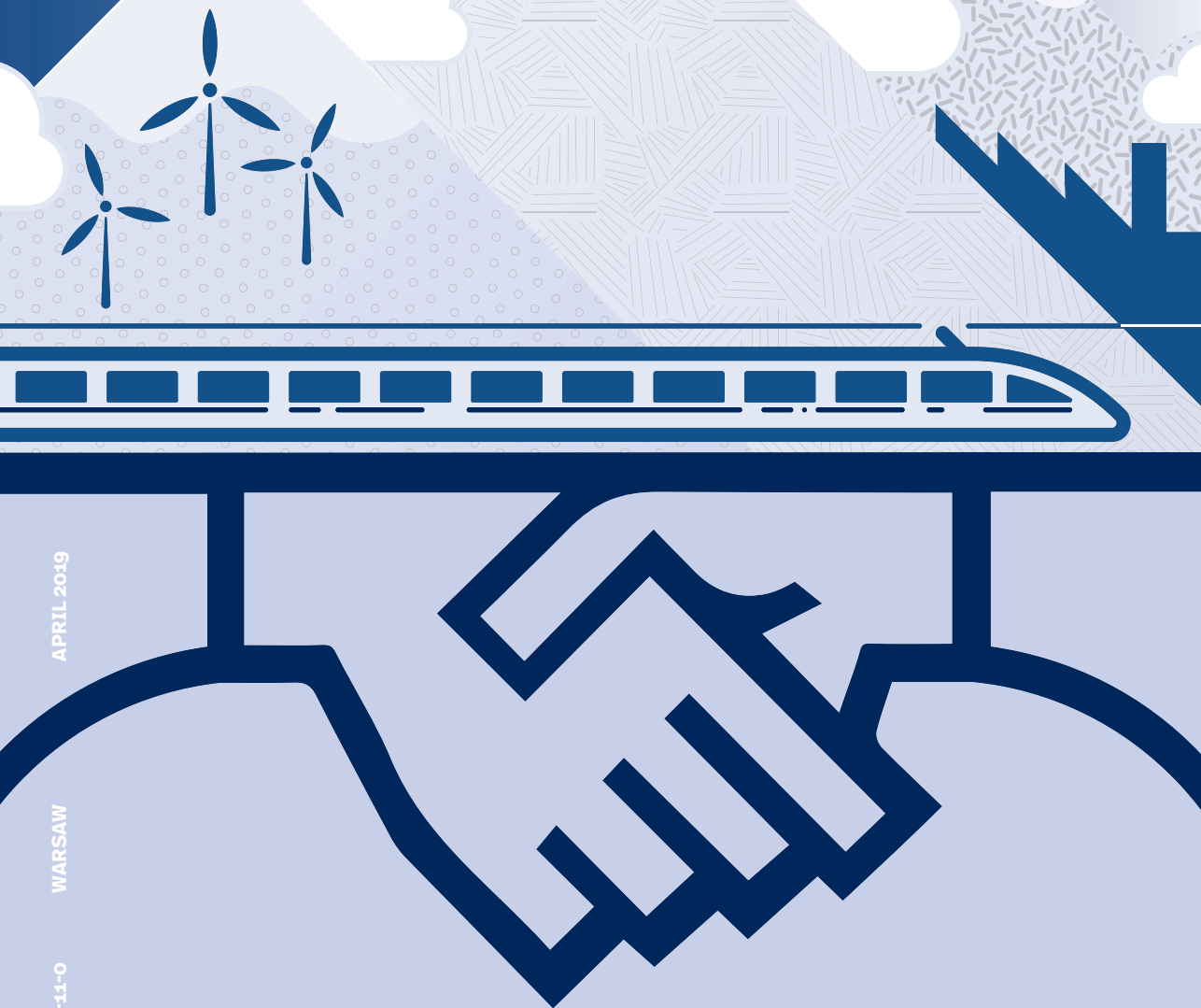




Polish  
Economic  
Institute



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# Cohesion policy, or solidarity in action

Warsaw, April 2019

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# Key findings

1.3% of GNI

percentage of EU-27 national revenue recommended  
by European Parliament for 2021-2027 budget

Portugal

the biggest beneficiary of cohesion funds  
per capita so far

about 10%

budget cuts for cohesion policy in 2021-2017  
according to the European Commission's proposal

EUR 2.74

in additional GDP generated by every euro from  
cohesion policy invested in 2007-2013

EUR 1 bn

contributed to EU GDP by 2023 by effects of  
cohesion policy in 2007-2013

**The aim of this report** is to show history how it helped develop the Western European countries and how it creates value in the European economy. The European Commission has announced cuts in the budget for cohesion policy. Above all, the lower budget results from the repercussions of Brexit and the intensification of new challenges relating to security, protecting the environment and migration, among others. If the Commission's draft is adopted in its current form, less than EUR 330 bn from the multiannual budget will go towards cohesion policy.

**Increase in the EU's revenue.** The European Parliament is pushing for receipts from payers who benefit the most from the effects of cohesion policy on all member states to be increased to 1.3% of GNP. For example, for every euro that Austria has spent on co-funding cohesion policy in the Visegrad Group, it has gotten back EUR 3.3. It is EUR 1.5 for Germany and EUR 1.45 for the Netherlands. Across the EU economy, one euro contributes an additional EUR 2.74 to GDP. By 2023, the EU economy will have gained an additional EUR 1 bn from money spent on cohesion policy in 2007-2013.

**Money spent so far.** In 1989-2013, the Commission spent EUR 787.96 bn on implementing investment projects as part of the cohesion policy (European Commission, 2018c). In the current multiannual budget (2014-2020), it is over EUR 350 bn. Together, this gives close to EUR 1.2 bn, or around EUR 2400 per inhabitant on average. The biggest beneficiary per capita is Portugal, followed by Greece. Countries in Central and Eastern Europe, such as Estonia, Lithuania, Latvia, Slovakia, Hungary and the Czech Republic, are also at the top of the ranking. Poland is ninth. Denmark and the Benelux countries (the Netherlands, Luxembourg and Belgium) received the least funds per capita.

# 1 million

jobs created by EU funds in 2007-2013

# EUR 120 bn

amount contributed by EU-15 countries to cohesion policy in Visegrad Group (V4) countries in 2007-2013

# EUR 97 bn

total economic benefits of old member states from implementing cohesion policy in V4 in 2007-2015

## Main beneficiaries of convergence of V4 countries among EU-15 payers

331% – Austria

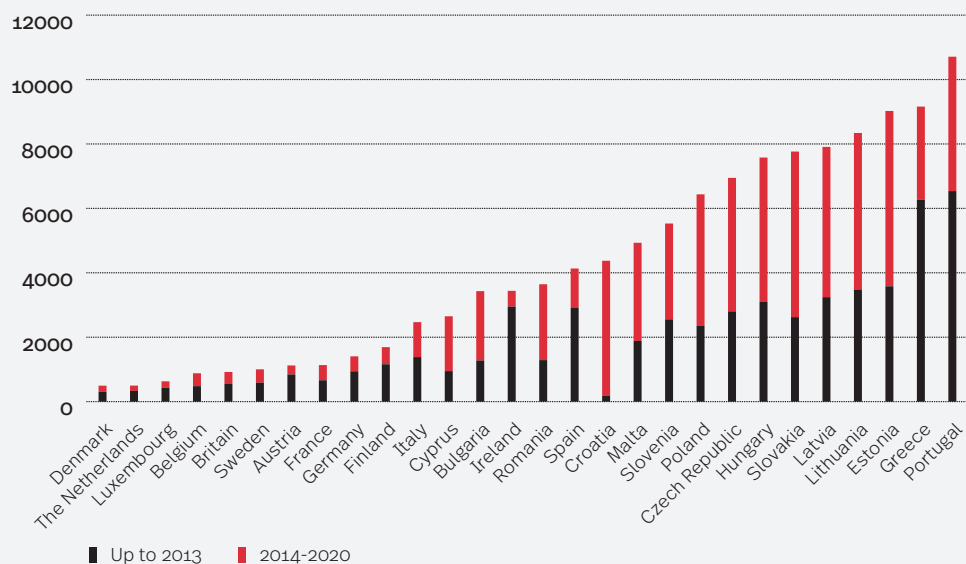
150% – Germany

145% – The Netherlands

**Rules for allocating the funds.** The Commission proposes to change the method in place since 1999 to reflect changing in regional differences in recent years, continuing to direct resources towards regions that most need to catch up compared to the rest of the EU and ensuring that everyone is treated fairly (European Commission, 2018e). The system for allocating funds as part of cohesion policy is supposed to be modified slightly to support less developed countries and provide greater financial support for countries facing industrial transformation. It is still primarily based on GDP per capita, but will also use new criteria for all categories of regions, such as youth unemployment, low levels of education, climate change and efforts linked to taking in and integrating migrants.

**Recommendations.** Decisions on how much payers would contribute to the EU's budget for 2021-2017 have not been made yet, so the level of funding for cohesion policy and how the funds would be allocated remain unclear. Based on how cohesion policy was formed and its results, this report recommends changes based on three dimensions: reliable measurement, adequate funds and long-term perspective. On the one hand, reliable and comparable data for assessing the effectiveness of how the funds are managed is missing. For this reason, a European Institute for Evaluating Social Policy needs to be established. On the other hand, adapting the funds to individual countries' and regions' needs must account for the challenges currently faced by the EU. The EU should not only react to problems that affect it, but also forestall the negative consequences ahead of it. Cohesion policy should be viewed in terms of long-term benefit, so it is important to look at how measurable effects improve quality of life noticeably.

▼ **Chart 1.** Per capita funds from cohesion policy received by individual countries by 2013 and in 2014-2020 (EUR)



Source: prepared by the authors based on data in: European Commission (2019).

#### Reliable measurement

1. Reliable and comparable data
2. Using the methodology of quality of life indexes
3. Establishing a European Institute for Evaluating Cohesion Policy

#### Long-term perspective

1. Higher contributions for cohesion social
2. Quality of life depends on objective conditions and people's capabilities
3. Considering the long-term prospects of EU enlargement in the budget

#### Adequate funds

1. Accounting for the causes of a potential cut in funds
2. Countering the consequences of Brexit
3. Including the multiplier effect in the future budget

Constructive compromise



# Introduction

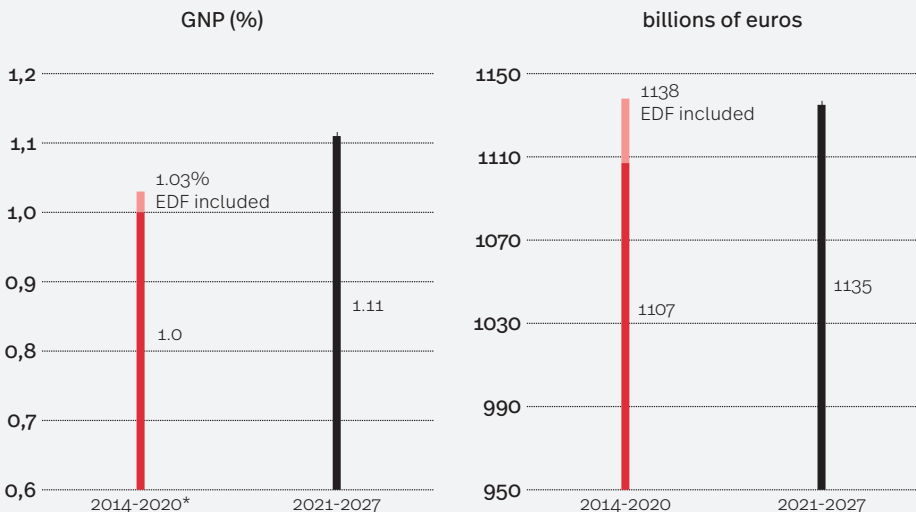
The EU's cohesion policy involves reducing economic and social inequalities by providing – via various funds – financial support to less developed regions. These efforts boost economic growth, increase the EU economy's competitiveness and employment, and seeks to ensure the EU's harmonious, sustainable and lasting development. Cohesion policy is also an integral part of the EU's multiannual budgets, which, apart from sustainable development, are supposed to help the EU face various challenges.

On 2 May 2018, the European Commission presented proposals on the multiannual framework for 2021-2027 (European Commission, 2018a). The proposals in the document

entitled “A Modern budget for a Union that Protects, Empowers and Defends” only seemingly show funds to have increased from EUR 1087 bn in 2014-2020 to EUR 1279 bn in 2021-2017 (in current prices).

Three weeks after the document was published, the European Parliament showed that this amounts to a cut due to discrepancies in how the Commission's calculations are presented. The Parliament noticed that the increase in funds for several EU programmes is significantly lower and that the cuts in funds for other programmes are significantly higher than initially presented by the Commission. The Commission's estimates also overlook the impact of Brexit (European Parliament, 2018d).

➤ **Chart 2. Total liabilities (in 2018 prices)**



\* Percentage of GNP for 2014-2020 in 2011 prices.  
Source: European Parliament (2018b).

In the Commission's proposals, spending by the European Development Fund (EDF) was not accounted for in the EU budget for that period, although they were incorporated into the multiannual framework for 2021-2027. This means that, after eliminating inflation and accounting for the EDF, there is no actual increase in the multiannual budget for 2021-2027, but rather a cut – from EUR 1138 for 2014-2020 to EUR 1135 bn for 2021-2027 (in 2018 prices) (European Parliament, 2018b). This means that, contrary to the Commission's stance, the budget will not amount to 1.11% of the EU-27 countries' gross national income (GNP), but rather 1.08% of it.

In the context of cohesion policy, the Commission's proposals foresee cuts of 7%, but in reality EU countries would receive 10% less funds (European Parliament, 2018a). In agricultural policy, the cuts would amount to 15%, rather than 10%, as presented by the Commission. According to calculations by the Parliament's experts, the Cohesion Fund would be reduced by almost a half (45%) and the European Agricultural Fund for Rural Development by over 25%.

This reduction is caused by two factors: Brexit, as Britain was one of the main net payers, and the emergency of new challenges linked to, for instance, security and migration. The Commission wants to cover half the hole in the budget through cuts and the rest by increasing member states' contributions. Some countries, such as Poland, would rather rely solely on raising contributions. Poland is ready to contribute more to the EU budget to maintain the current role of cohesion policy and ensure that this money funds key EU priorities such as internal security, migration, investment in improving the climate and industrial innovation.

It is not certain that the budget plan for 2021-2027 will mean less money for cohesion

policy. In March, before the Commission's draft budget was published, the Parliament presented a stance on the recommended level of the multiannual financial framework for 2021-2027 (European Parliament, 2018c). According to MEPs, the level should be set at EUR 1324.1 bn in 2018 prices, which amounts to 1.3% of the EU-27's GNP.

Detailed rules on the allocation of money from the cohesion policy will need to be approved by a majority vote in the Council of the EU (member states' ministers) and the Parliament. It is very possible that many EU countries will want to link these drafts to negotiations on the general budget plan for 2021-2027, which requires unanimous approval. It is possible that decisions will not be made until the second half of 2019.

Poland wants to take active part in the dialogue concerning these challenges to cohesion policy. This report aims to support reaching a consensus. Reaching an agreement requires knowledge of the history of cohesion policy, hence Chapter 1 describes Europe's post-war development, followed by the different stages of cohesion policy. That chapter also presents the level of funding and selected benefits obtained by the EU from the funds. Chapter 2 discusses the challenges faced by Europe from the Central and Eastern European countries' perspective. Since there are still no detailed rules for allocating funds as part of cohesion policy in 2021-2027, Chapter 3 reviews how the effects of cohesion can be measured. The report closes with recommendations (Chapter 4).

**This report presents the changes to cohesion policy, the benefits for the EU as a community of countries striving for individual and collective wellbeing and ways of measuring the impact of funds that aim to support the EU's sustainable development.**



# Chapter 1. Origins of cohesion policy and funds allocated

The aim of the EU's cohesion policy is the individual and collective wellbeing of Europe's inhabitants. It is a fundamental tool at the community level serving to stimulate competitiveness and economic growth, with sustainable socio-economic development in all Europe's regions.

Europe's terrible situation after the Second World War:

1. Many survivors remained homeless and unemployed
2. Inflation drastically reduced the wages of those who were employed
3. Factories, railway lines, bridges, power plants and water systems had been damaged or destroyed
4. Farmers were struggling due to drought and urban and rural populations' inability to buy goods
5. Trade and capital flows needed for funding reconstruction had halted

The process shaping cohesion policy was not easy. Initially, the EU lacked the legal foundations, the tools for coordinating institutions' and funds' actions, and even standardised methods for collecting data from all member states. Yet as the economic and political situation within the EU changed, member states developed the essence of regional policy as we know it (Manzella, Mendez, 2009).

Cohesion policy is a policy of growth, not just redistribution. Its cohesion (social, economic and territorial) is expressed in maintaining stable relations between EU citizens, who are convinced that their chosen socio-economic policy framework is the best for ensuring individual and collective wellbeing.

European cohesion policy began in 1986, but it was influenced by earlier events, such as the Marshall Plan. The history of cohesion policy begins in post-war Europe.

## Europe's post-war development

In 1946, George F. Kennan, an American sovietologist at the Department of State, wrote a long telegram from Moscow analysing Soviet intentions in Europe. The following year, *Foreign Affairs* published the telegram as article "X". The text caused a stir and was widely discussed. Kennan concluded that, surrounded by capitalist

countries, the Soviets feel uncertain and want to expand their rule. Kennan called for long-term, patient, but firm and vigilant prevention of Russia's expansionist tendencies. He recommended that the United States help rebuilding the economic health and vigour of European society, seeing it not just as humanitarian age, but the best way of fighting communism in Europe. He believed that European nations receiving assistance from the United States must act as an economic unit, much like the 13 colonies after the American revolution. He argued that a rebuilt Europe would benefit the US, as it would once again be able to buy American industrial and agricultural products (Constitutional Rights Foundation, 2000).

Fearing the expansion of communism in Europe, and considering the deep post-war crisis in 1948-1951, American diplomats provided 16 countries in Europe with over USD 13.5 bn. This was

the Marshall Plan of June 1947, the funds provided by the US for rebuilding Europe. It was not limited to financial support; raw materials were also delivered so that European governments could sell goods on internal markets and use the capital obtained for investment, loans for enterprises, covering budget deficits, paying off debt or further orders. The US assistance aimed to protect European democracy from Soviet communism.

The Marshall Plan, which entered force in 1948, involved support of USD 17 bn. Ultimately, USD 13.5 bn was used. The top beneficiaries were Britain (USD 3.5 bn) and France (2.7 bn). Italy and West Germany (the future Federal Republic of Germany) received USD 1.5 bn each. In response to the American support, the European Organisation for Economic Cooperation was established on 16 April 1948 to act as the US's partner for implementing the European Reconstruction Plan.

“ Looking back twenty years, it can certainly be said that the Marshall Plan was Europe's great leap forward. Investment aid, fertilizers, machinery and tools, production programmes and growth planning laid the foundation for further development. By supplying food and raw materials, the Marshall Plan saved Europeans from imminent economic disaster. ”

Richard Mayne (1970)

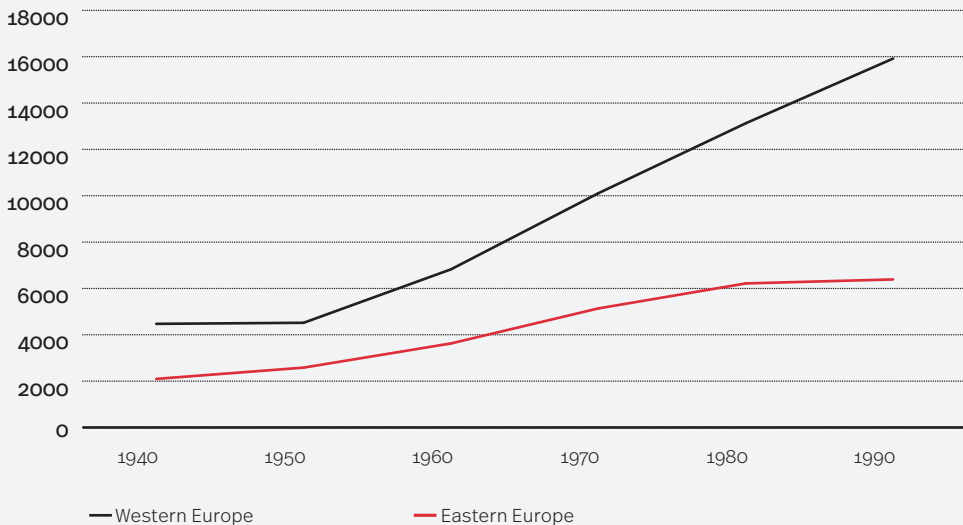
The Marshall Plan's fundamental aim – based on the law on economic cooperation – was to ensure “individual freedom, free institutions and true independence” by reinstating “healthy economic conditions”. In 1948-1951, the Marshall Plan was supposed to help introduce a few strategies and reforms for rebuilding Western Europe. The programme's objective was to meet urgent food, medical and housing needs, increase industrial and agricultural production by quickly rebuilding factories, railway lines, bridges and so on, combating inflation and ensuring financial stability, and creating a common market without national trade barriers.

By the time the Marshall Plan ended in 1951, industrial production in Western Europe had risen by 40% compared to before the war. Trade and export had also increased significantly. People were entering the labour market, so their living standards were improving. Communist parties lost most of their influence. After Czechoslovakia, no other European nation succumbed to communism. The Marshall Plan did not cure all the continent's economic ailments; in 1951, Western Europe still imported 30% of its food and inflation remained a problem in some countries. Marshall's proposal on the common market remained just an idea. National trade barriers continued to block the free

movement of goods and services, which could have lowered prices. Over the next decades, the Europeans created a common market and the institutions that now make up the EU. Investing in Europe's future, the US ended the cycle of wars that had plagued the continent for centuries. In doing so, the US turned away from its traditional isolationism, becoming the leader of the free world. Winston Churchill called Marshall's decision to rebuild Europe a decision "Worthy of a statesman of the highest order".

Both the aims of economic growth and halting the communist offensive were achieved. Some historians argue that the American support coincided with an unprecedented economic boom in Western Europe in 1945-1947 (Milward, 2013). Without the American assistance programme and sizeable imports from the US, the public investments of France's planning commissioner, Jean Monnet, and the reforms of West Germany's minister of the economy, Ludwig Erhard, would not have proven so effective, though.

▼ **Chart 3.** Regional average GDP per capita (USD in 1990 prices, PPP)

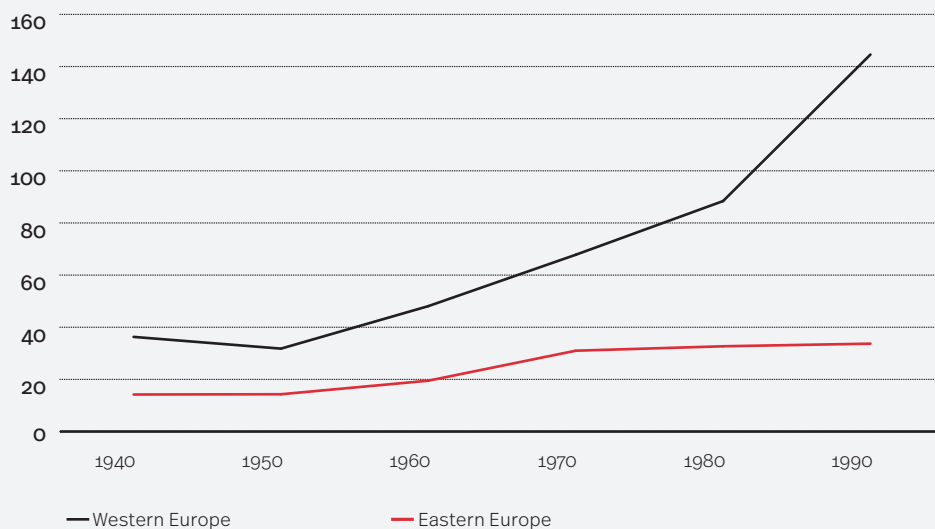


Source: prepared by the authors based on OECD.

Economic growth of 5% a year on average until the start of the 1960s enabled Europe to be rebuilt after two wars and dynamic socio-economic development. Rising wages were accompanied by the development of social security. During *les trente glorieuses* (French for "the glorious thirty"), ever broader groups could afford to buy consumer goods, driving economic growth and their own wellbeing.

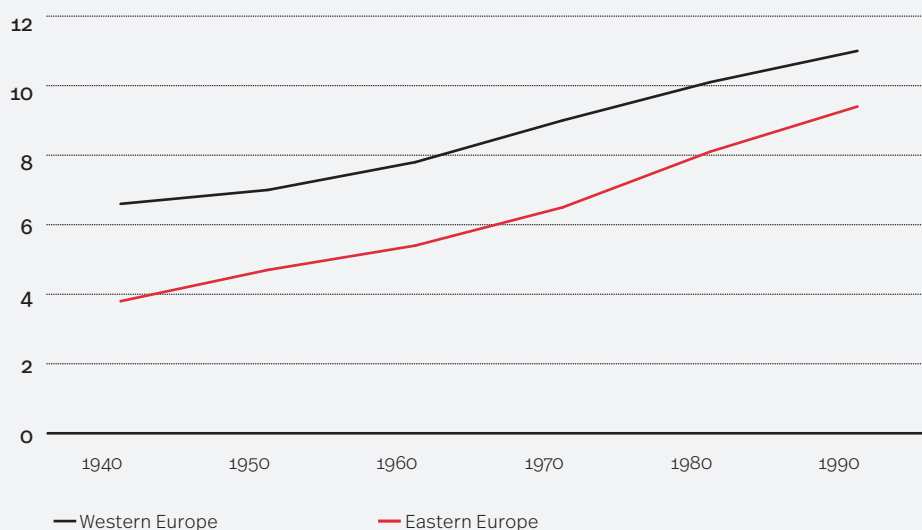
It is obvious that the decades of communism in Central and Eastern Europe significantly increased the chasm between those countries' development and that in Western Europe. This is visible in economic growth (measured as GDP), but also in wages and the average number of years in education.

✎ **Chart 4.** Regional average real wages of construction workers (number of baskets of goods that can be purchased for the daily wage; average for the decade)



Source: prepared by the authors based on OECD data.

✎ **Chart 5.** Average number of years in education



Source: prepared by the authors based on OECD data.

## 1952-1971 – ideas, exploration and first attempts to create a cohesion policy

In the Treaty of Paris on creating a European Coal and Steel Community, the question of internal cohesion was completely overlooked by the founding countries (Belgium, France, the Netherlands, Luxembourg, the Federal Republic of Germany and Italy). It was not until the preamble of the Treaty of Rome of 1957, which established the European Economic Community (EEC), that the concept of a European regional policy based on common concern about the development of regions in member states appeared for the first time (Gawlikowska-Hueckel, 2005). While the treaty on the EEC did not define regional policy itself, it was the seed of Europe's future cohesion policy (European Commission, 2008).

Based on the Treaty of Rome, a European Social Fund (ESF) and European Investment Bank (EIB) were established in 1958. Then and now, the ESF aimed to support Europe's inhabitants' mobility, education, training, retraining and all other investment in developing human capital (Article 3 point i and Articles 123-128 of the Treaty establishing the European Economic Community of 25 March 1957). The EIB issues (or guarantees) loans to public and private entities, contributing to the uniform and constant development of the common market, which protects the Community's interest. In the sixty years since it was established, it has invested over EUR 1.1 tn in 11,800 projects (European Investment Bank, 2018).

In the 1960s, an important step towards creating joint systemic solutions relating to the uniform development of all the Community's regions was the publication of three expert reports: the Motte Report of 9 May 1960, the Birkelback Report of 17 December 1963 and the Rossi Report of 9 October 1964. Each revealed a need to coordinate the Community's effects

to achieve a balance between regions and fully use poor, backward and peripheral regions' potential. These reports led to cohesion policy being incorporated into the "Mid-term Economic Policy Programme" on the Community's actions in 1966-1970. Unfortunately, the lack of legally binding solutions for individual countries, coordination and intervention as part of national economic policies did not increase (Willa, 2010).

While the foundations of cohesion policy were being laid, almost one-third of the average European household's budget was being spent on food. In 1962, countries decided to establish a Common Agricultural Policy (CAP). Until 1968, its aim was to stimulate the growth of agricultural and food production to achieve food self-sufficiency. The CAP was supposed to be supported by the European Agricultural Guidance and Guarantee Fund (EAGGF) established in 1964. Although the Fund was not an instrument of cohesion policy, because it was above all supposed to fund the CAP, some of the funds were geared towards structural efforts and modernisation in agriculture, which supported the development of rural areas. Some of the funds went towards sectoral structural and modernising efforts in agriculture, but without the coordination of a common agricultural policy (Gawlikowska-Hueckel, 2005). A Council resolution of 1971 introduced incentives for regional development as part of the CAP and the coordination of financial assistance. The CAP currently costs each EU citizen around EUR 0.30 per day. In 2011, 43% of the EU's annual budget went towards the CAP, or EUR 58 bn. The CAP's share in the budget has been constantly declining since 1984, when it amounted to 72%, whereas the number of farmers in the EU has doubled since the enlargement of 1992 (European Commission, 2013).

“Regional policy in the Community should be what the heart is to the human body [...] its aim should be to restore life in regions that have been denied it.”

Jean Rey (1968)

The Merger Treaty signed in 1965 was a response to ineffective coordination. It led to the integration of the ECSC, EEC and EAEC. In 1973, a Directorate General for Regional Policy (DG REGIO) was established by the Commission. This institution brought together all the services that had been working on regions' problems separately before. Controlling the flow of funds within member states, including ones for helping regions, was the first attempt to coordinate member states' actions (Pietrzyk, 2007).

A very important, though still not fully effective, element of cohesion policy is measuring actions' impact. On the Commission's initiative, the EC's Statistics Office designed a three-level Nomenclature of Territorial Units for Statistics (NUTS) at the start of the 1970s. This system

made it possible to compare data between regions and identify areas in which a region needs support (Eurostat, 2018b).

### 1972-1985 – towards an active European cohesion policy

Since 1972, there has been a certain European cohesion policy based on real resources, but not yet about a real regional policy developing at a sustainable pace. In 1972, it was decided that 60% of ESF funds would go towards combating unemployment in declining or lagging regions, and 65% of EAGGF funds towards improving the structure of agriculture in regions with a low GDP per inhabitant. Both funds' combined share in the total EC budget was just 5% (Willa, 2010).

“Although the goal of continuous expansion has been achieved [...], it is neither sustainable or harmonious.”

Thomson Report (1973)

The start of a real, though still flawed, European regional policy was the establishment of a European Regional Development Fund (ERDF) in 1975 for a three-year trial period. Its purpose was to correct regional imbalance caused by the dominance of agriculture, changes in industry, structural unemployment (Article 1 of Council Regulation No. 724/75, EC Journal No. L 073 of 21 March 1975). The beginnings of the ERDF's actions were purely national; funding

previously-selected projects in member states with little European influence. In addition, member states had to apply for ERDF assistance at the project level. There was a system of annual selection and funding of existing projects (European Commission, 2010).

In 1973, the year that Denmark, Ireland and Britain joined it, the Community failed to define objective criteria for assessing the Community's regional problems. For this reason,

### The start of the ERDF: actions that qualified for support:

1. Investment in small enterprises creating at least ten new jobs.
2. Investment in infrastructure linked to point 1.
3. Infrastructural investment in mountain areas that would also need to qualify for support from the agricultural orientation fund.

funds from the ERDF were allocated based on national quotes defining fixed percentages and the principle of *juste retour*, the proportionate division of funds depending on the level of input. The richest countries were the biggest beneficiaries, while those that contributed less to the budget received the least. In those early years, for Fund's significance was limited and only encompassed activity at the national level, without taking regions into account (Willa, 2010).

In 1979, it was decided to make 5% of the EFRR's funds, the so-called out-of-quota part (*hors quota* in French), would be at the Commission's exclusive disposal. It was meant to give the Commission the flexibility to intervene in places that support was not reaching (Article 2 point 3B of the Council Regulation No. 214/79, Dz.U. EC No. L 035 of 9 February 1979). This strengthened the Commission's position within the EC's institutional structure and emphasised that a supranational entity would have more of a say. This action was especially important in the first years of the EFRD. The principle of *juste retour* revealed its weak sides – member states lowered their spending on cohesion actions and the subsidies themselves were viewed as compensation for national contributions to the

Community budget. Moreover, some countries opposed publishing statistics on economic development, especially regional development. There was also no uniform evaluation criteria and differing methods for collecting statistical data for comparative analysis (European Commission, 2008).

As differences in the level and development prospects of Europe's regions deepened, the funds' modest redistributive effects threatened the continuation of integration processes. The inefficient ERDF funding system was replaced by the national quota system with the intervention fork system (Article 1 of Council Regulation No. 3641/85, EC No L 350 of 27 December 1985). This system consisted in a percentage determining the minimum and maximum amount of financial support for individual countries. The change in redistribution system considered the financial needs of countries with lower contributions to the Community budget and worse-off countries. In addition, the share of funds that the EC Commission could use freely rose from 5 to 11.5%. This was of great significance as the Community enlarged to Spain and Portugal, and from the perspective of countries that still had a lower level of socio-economic development, such as Ireland and Greece (Willa, 2010).

### 1986-1993 – real cohesion policy

The *spiritus movens* of the creation of a true European cohesion policy and a breakthrough for conducting a genuine regional policy using the EFRD was the Single European Act (SEA) of 1986. It was the first significant modification of the Treaty of Rome of 1957, introducing a common European market and strengthening political cooperation between member states. For the first time, it introduced a chapter on economic and social cohesion into the EU's legal acquis (Title V – Economic and social cohesion). It also emphasised the need to level differences

between regions and allow them to participate fully in economic development through structural changes. This was supposed to help correct fundamental regional disproportions by leveling differences in regional development (Article 160 of the Treaty establishing the European Community).

**Key events of the 1980s: incentives for formulating a “truly European” cohesion policy:**

1. Single European Act.
2. Enlargement to Greece, Spain and Portugal.
3. Adoption of single market programme.

Aware of the need to transform how European funds and cohesion policy function, action was not limited to legal actions. The Parliament's resolution was a clear critique of cohesion policy and Structural Funds (Point 6 of European Parliament Resolution on the Regional Policy of the Republic of EC No. C 326 of 19 December 1988). The key shortcomings were: too little funds, funds' overly varied and unclear objectives, covering an overly large EC area, too many projects, assistance for developing infrastructure at the expense of production investments, member states treating of EC assistance as refunds for contributing to the common budget, and overly optimistic, vague and general regional development programmes.

The 1980s were also a decade of enlargement to Greece (1981), Portugal and Spain (1986), which increased regional differences in the European Community, which had

The three key articles in the SEA for cohesion policy:

**Article 130a.** To promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions (new Article 130a of the Treaty on EEC).

**Article 130b.** The Community shall support the achievement of these objectives by the action it takes through the structural Funds, the European Investment Bank and the other existing financial instruments. (new Article 130b of the Treaty on EEC).

**Article 130c.** The European Regional Development fund is intended to help redress the principal regional imbalances in the Community through participating in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions. (new Article 130c of the Treaty on EEC).

The SEA enabled cohesion policy to be transformed into a real development policy with autonomous aims and rules, which remain its foundation (Hübner, 2007).

The most important ones are:

**CONCENTRATION:** Defining a limited number of targets and focusing on the least-developed regions.

**PARTNERSHIP:** Partnership when developing and implementing programmes, assuming the participation of entities from the national, local and EU levels, including private partners and NGOs, guaranteeing the involvement and transparency of activities.

**PROGRAMMING:** Multiannual programming periods (3-5 years) based on analysis, strategic planning and assessment.

**ADDITIONALITY:** Additionality, which ensures that member states do not replace national spending with EU funds.



12 member states. Before the enlargement, one in eight Europeans had annual income 30% lower than the Community average. After 1986, this grew to one in five (European Commission, 2008). At the same time, in a report

Italian economist Paolo Cecchini estimated the “costs of non-Europe”, the economic losses resulting from failing to create a single market, at 4.25-6.5% of the Community’s GDP (Cecchini, Catinat, Jacquemin 1988).

“ *In the 1980s, the ‘costs of non-Europe’, the economic losses resulting from failure to create a single market, were estimated at 4.25- 6.5% of GDP.* ”  
Cecchini, Catinat, Jacquemin (1988)

Amid the new goals set by the SEA, the Parliament’s critical assessment of the EC, deepening regional differences and losses resulting from the lack of a common market, in 1987 the Commission presented the Parliament and Council with proposals for reforming the Community’s financial system. In a document entitled *Making a Success of the Single Act: A New Frontier for Europe*, later known as the “Delors I Package”, it presented rules for improving budgetary discipline and procedures from the perspective of European unification up to 1993. On 24 June 1988, the Council adopted the first

regulation incorporating structural funds into cohesion policy based on four principles and with five objectives (Ernst & Young, 1996). Alongside the five key objectives, the Commission proposed 16 community initiatives for solving concrete problems in certain regions or sectors, such as supporting trans-border cooperation between neighbouring regions (“Interreg”), projects relating to professional training and job creation (“Euroform”, “Now” and “Horizon”), and reviving industrial areas (“Resider”, “Rechar”, “Retex”, “Renaval”, “Konve”) (European Commission, 2008).



#### The Delors I Package's five key aims

**Aim 1:** Promoting development and structural progress in less developed regions.

**Aim 2:** Transforming regions strongly affected by industrial decline.

**Aim 3:** Combating long-term unemployment.

**Aim 4:** Facilitating the professional integration of young people.

**Aim 5:** Accelerating the reform of agricultural structures and promoting the development of rural areas.

Cohesion policy's aims can be horizontal or regional. Horizontal ones target a specific group regardless of place of residence. Regional ones target regions that meet the criteria for assistance.

To improve quality compared to the annual selection of projects by member states and move towards multiannual programming of a more strategic nature, based on a broad partnership between regions, member states and the Commission, the pool of funds available as part of cohesion policy was increased. Annual funding rose from around ECU 6.4 bn in 1988 to 20.5 bn in 1993, with the share of the funds in the

EU budget increasing from 16% to almost 31%. To move away from the principle of *juste retour*, the Commission started to lead and fund regional projects in a more autonomous and experimental way. These efforts became the basis for implementation methods as part of cohesion policy. The Regional Policy Committee was abolished and an advisory Committee on Development and Conversion of Regions was established at the Commission for managing Structural Funds. Responsibility for setting the main aims and priorities of cohesion policy was also moved to the Commission (European Commission, 2008; 2010).

Table 1. Funds spent on individual aims of cohesion policy in 1989-1993

Aim	Type of aim	Inhabitants benefited (million)	Inhabitants benefited (%)	Funding (billions of ECU)	Share of funds (%)
1	Regional	86.2	25	43.8	64
2	Regional	57.3	16.6	6.1	9
3 and 4	Horizontal	-	-	6.7	10
5	Horizontal and Regional	17.6	5	6.3	9
16 community initiatives	-	-	-	5.3	8

Source: prepared by the authors based on: European Commission (2008).

“The Single European Act improves significantly the institutional system and sets new objectives for the Community, notably the completion of the internal market by 1992 and the strengthening of economic and social cohesion. The realization of these two objectives will also respond to the hopes and needs of the countries which have just joined and which rightly expect that their involvement in the Community should underpin their development and help raise their living standards through a combination of their own efforts and support from their partners.”

Making a success of the Single Act: a new frontier for Europe (1987)

The next step towards linking the degree of economic growth to regions' and member states' ability to participate fully in European integration was the Delors II Package, which was significant when the Treaty of Maastricht of 1992 were being prepared. Although the fundamental aim of the Treaty establishing the European Community (TEC) was to create the EU and a monetary union, the document emphasised both economic and social development, and hence also cohesion policy. In addition to increasing the size of the Structural Fund (to ECU 153 bn), in 1993 a Cohesion Fund and a Financial Instrument for Fisheries Guidance were established. Then and now, the Cohesion Fund was geared towards member states, rather than regions. The criterion for obtaining subsidies was GNP per capita below 90% of the EU average, on the condition that the countries applying for subsidies had prepared an economic convergence programme that met the criteria of the economic and monetary union set out in the TEC. As a result, Greece, Ireland, Spain and Portugal received funds from the Cohesion Fund (Rozporządzenie Rady nr 1164/94, Dz.U. UE nr L 130 z 25 maja 1994 roku). The fund could cover up to 85% of the cost of investing in environmental and transport infrastructure worth over ECU 10 m. Maintaining the four key principles of cohesion policy (concentration, partnership, programming and additionality) confirmed that they constitute effective assumptions for cohesion policy. The signing of the Treaty of Maastricht strengthened the Parliament's role when setting this policy's direction. From then on, the Commission's proposals in this area needed to be approved by the Parliament, which was also supposed to be briefed on an ongoing basis about the implementation of programmes financed from the Structural Funds (Pietrzyk, 2007).

## Effects

In the mid-1980s, the European economy emerged from a turbulent decade of recession and weak economic growth. Unemployment in the European Community had been growing constantly, from 5.8% in 1980 to 11.2% in 1985. The rate of economic growth in Europe had fallen from around 5% per year in 1970 to around 2% in the next decade. The international environment was becoming increasingly unfriendly. US defence, foreign and economic policy was changing rapidly under President Ronald Reagan. Trade disputes appeared in the whole Atlantic area, and the share of American imports subject to trade restrictions rose from 8% in 1975 to 21% in 1984. By 1988, two years after the Single European Act was launched, growth in intra-EU trade regained the level of the early 1970s. By 1990, the potential rate of GDP growth in the EU had risen by 1 percentage point, to 3% per year. It is estimated that, after ten years of EU membership, economic integration boosted a country's revenue per capita by 10%, compared to revenue outside the EU. As a result, the single market became increasingly popular: the free movement of goods, people and services is universally seen by society as one of the most positive results of establishing the EU, alongside peace between member states (Draghi, 2018).

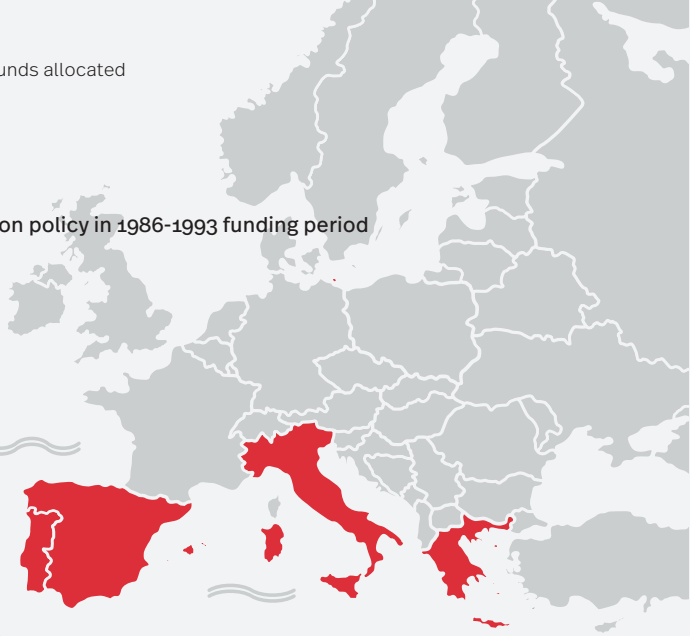
Regarding the reform of the structural funds in 1988 and the Community's macroeconomic situation, it is worth highlighting cohesion policy's contribution to achieving aim 2, transforming regions strongly affected by industrial decline. The regions covered by aim 2 are presented in Chart 6. Britain (ECU 2 bn), Spain (ECU 1.4 bn) and France (ECU 1.2 bn) received the most funding. Regions that qualified to receive funds from aim 2 had the highest percentage of people employed in industry in 1989 – one in three inhabitants.

➤ **Infographic 1.** Selected benefits of cohesion policy in 1986-1993 funding period

**Total budget for structural funds:**

# ECU 69 bn

(corresponding to EUR 29.6 bn<sup>a</sup>),  
or 25% of the EU budget  
and 0.3% of total EU GDP



### The main beneficiaries were:

Spain |  **14.2 bn**

Italy |  **11.4 bn**

Portugal |  9.2 bn

Greece |  8.2 bn

## In 1989-1993, structural funds helped

**Create 600,000 jobs** in Greece, Ireland, Portugal and Spain



increase **the average GDP per capita** in these countries from 68.3% to 74.5% of the Community average



**470,000 SMEs** receive support  
in aim 2 regions

**917,000 people** attend ESF training

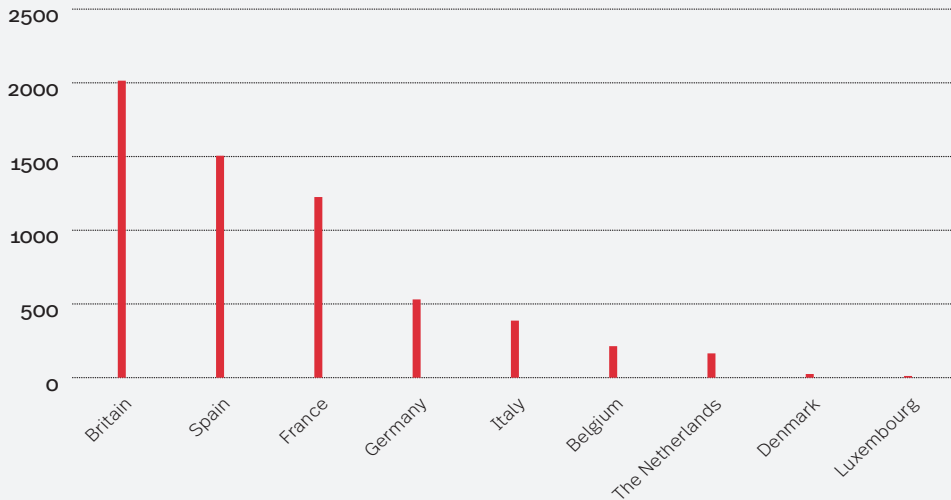


**Aim 1 regions reduce differences in GDP per capita** (compared to the EU average) by 3 percentage points

<sup>a</sup> As part of the following funds: the European Regional Development Fund and the European Agricultural Fund for Rural Development (European Agricultural Guidance and Guarantee Fund).

Source: prepared by the authors based on: European Commission (2008).

▼ **Chart 6.** Distribution of spending as part of aim 2 in 1989-1993 (millions of ECU)



Source: Ernst & Young (1996).

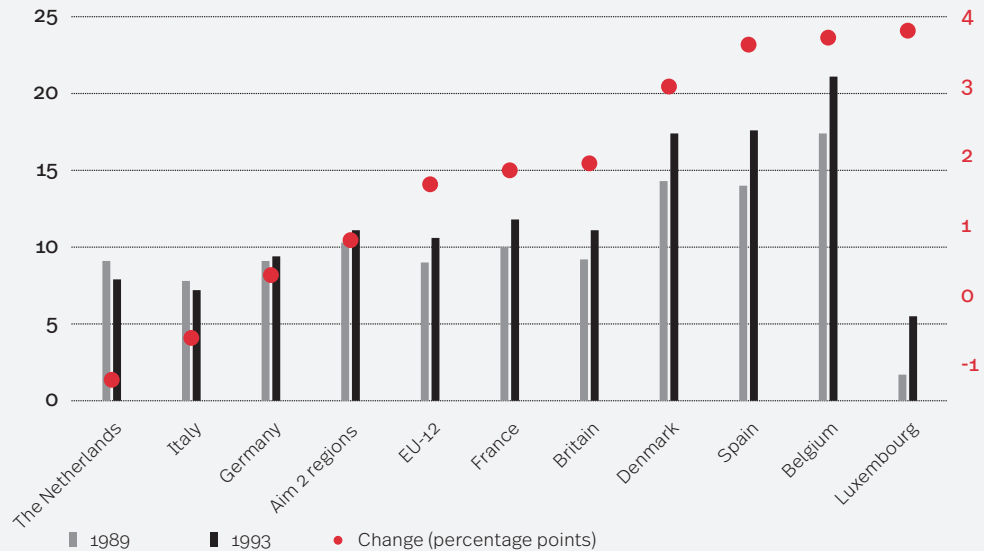
At the regional level, the economic boom of the end of the 1980s reduced differences in levels of unemployment, ending the long-term tendency to widen the gaps that appeared in the mid-1970s. The convergence that became visible from 1987 turned out to be short-lived, with the situation worsening after 1991. That year, the EU economy slowed down, which resulted in the loss of 3 m jobs in 1991-1993. By the end of 1993, unemployment had returned to the peak levels of the mid-1980s. In the ten most affected regions, unemployment was 25.3%, seven times more than in the least affected regions, where the average was just 3.6% (Ernst & Young, 1996).

Compared to other EU regions, areas covered by aim 2 achieved relatively good results, lowering unemployment. In these regions, it decreased more rapidly in the second half of the 1980s (a decrease of 4 percentage points – from 14.7% from the mid-1980s to 10.3% in 1989). After that, it increased more slowly than in other regions after the start of the recession in 1991.

A partial explanation of aim 2 regions' relatively positive results lies in the labour supply trend: most aim 2 regions are strongly urbanised and particularly affected by demographic changes and an aging population, which reduces the number of new workers on the labour market. Likewise, the loss of jobs in traditional industries has tended to affect middle-aged and older men, many of whom have completely withdrawn from the labour market. However, these factors' impact on the labour market should not be masked by the fact that aim 2 regions succeeded in generating new jobs faster than anywhere else in the EU.

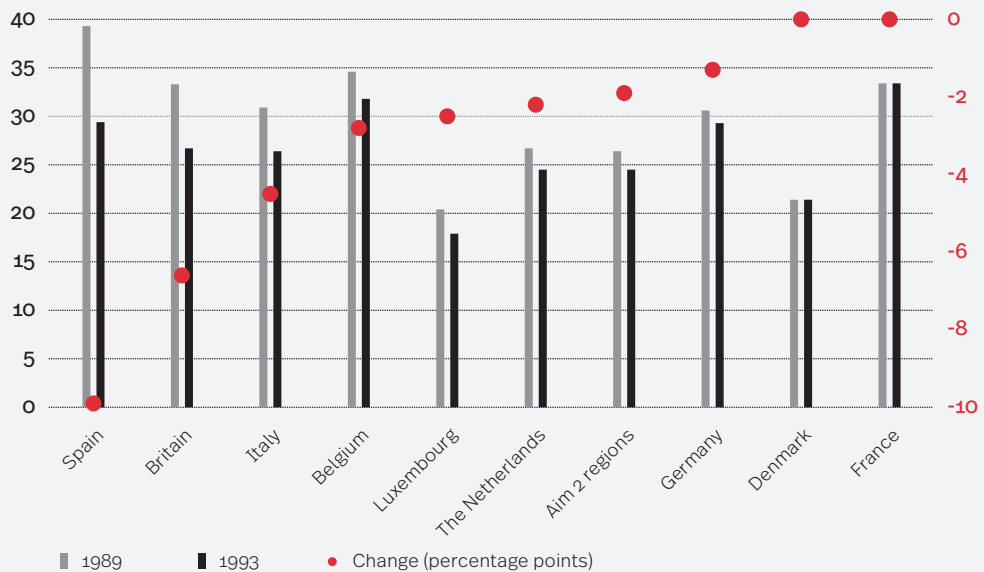
In aim 2 regions, the changes in GDP per capita in 1989-1993 were generally positive. In this case, GDP per capita was higher than at the start and comparable with trends in the EU as a whole. At the same time, employment in industry in these regions fell from 26.4% to 24.5% of all workers on average. In some countries, the changes were relatively small (for example, in Denmark and Germany), while in others the drop was quite clear (for example, in Italy, Spain and Britain).

Chart 7. Unemployment in regions covered by aim 2 in 1989-1993



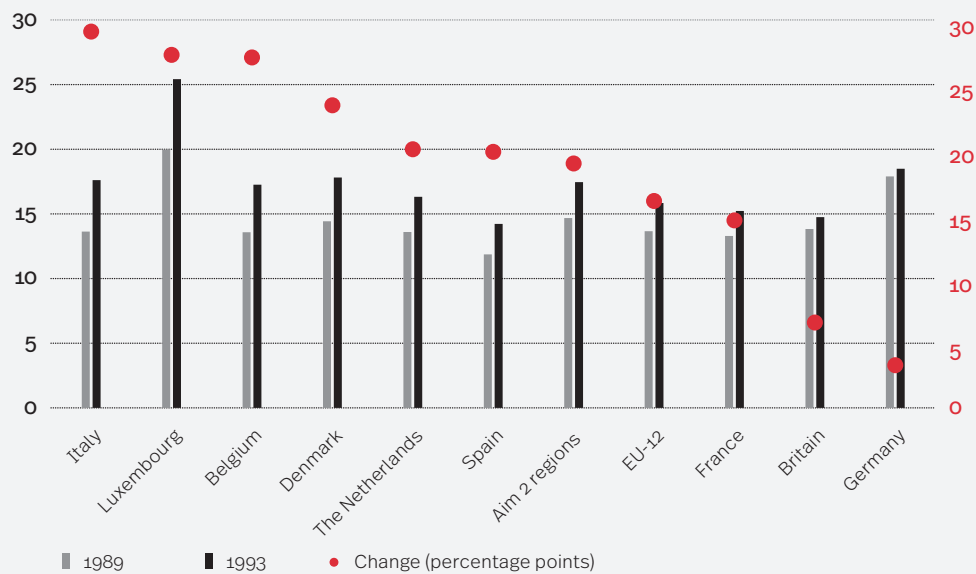
Source: prepared by the authors based on: Ernst & Young (1996).

Chart 8. Percentage of people working in industry in 1989-1993



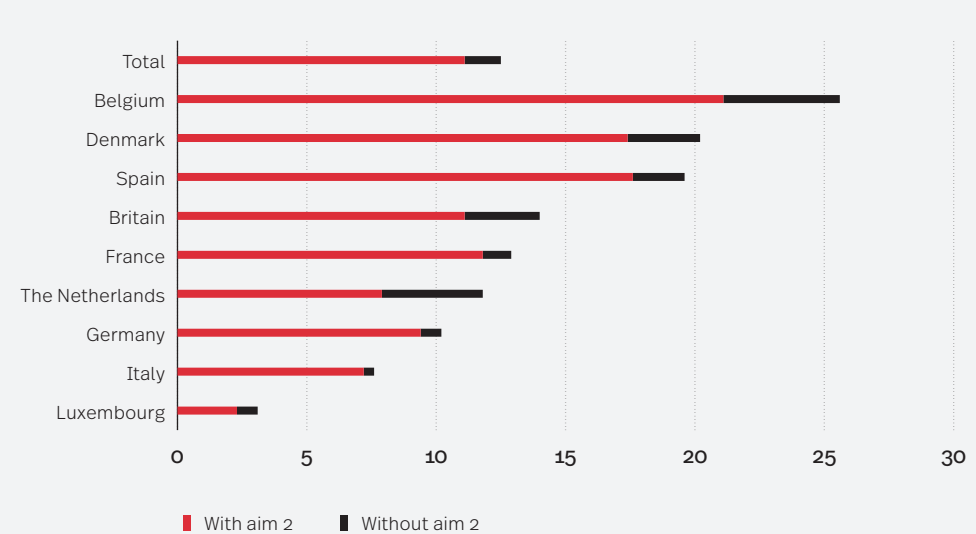
Source: prepared by the authors based on: Ernst & Young (1996).

Chart 9. GDP per capita in regions covered by aim 2 in 1989-1993 (ECU)



Source: prepared by the authors based on: Ernst & Young (1996).

Chart 10. Impact of aim 2 on unemployment rate (%)



Source: prepared by the authors based on: Ernst & Young (1996).

An excellent example of the effects generated by cohesion policy is the attempt to answer the question what would have happened to unemployment in each of these regions without the aim 2 intervention. In general, the average rate of unemployment in aim 2 regions would have been 12.5% (or 11.9% the basic estimated net value of work) at the end of 1993 compared to the actual rate of 11.1%. This would have led to a significantly lower level of convergence in unemployment indicators between aim 2 regions and the rest of the EU in 1989-1993. In reality, there obviously would not have been a 1:1 ratio between the results for employment as part of aim 2 and lowering unemployment. The impact on professional activity rates and on migration during and outside, as well as the impact on patterns of travel to work (especially for smaller areas) will diminish the full impact. It is impossible to deduce the precise scale of this factor in all sixty regions of aim 2, but the chart showing net jobs shows the impact on unemployment if there is ratio of 1:0.5, rather than 1:1 (Ernst & Young, 1996).

## 1994-1999 – the doubling of efforts

In December 1992, in Edinburgh, the European Council decided on the new multiannual financial framework. Around ECU 153 bn went towards structural funds and ECU 15 bn towards the Cohesion Fund, of which 68% was reserved for the poorest regions and countries. With that, the annual amount was doubled and assistance constituted one-third of the EU budget. The Council adopted a new regulation on cohesion policy on 20 July 1993 (European Commission, 2008).

In 1994, following pressure by local and regional authorities, the Committee of the Regions was established – an accredited institution that was supposed to speak for those authorities to carry out constant consultations on EU cohesion policy, which the Parliament had called for in 1982 (point 13 of the European Parliament Resolution on the role of the regions in the construction of a democratic Europe and the outcome of the Conference of



### The Delors II Package's six key aims

**Aim 1:** Promoting development and structural adaptation of regions lagging behind.

**Aim 2:** Transforming regions or parts of regions strongly affected by industrial decline.

**Aim 3:** Combating long-term unemployment and making it easier for young people and people at risk

of being excluded from the labour market to enter the labour market, promoting equal opportunity on the labour market for women and men.

**Aim 4:** Helping workers adapt to changes in industry and production systems.

**Aim 5:** Promoting the development of rural areas by (a) accelerating the

reform of agricultural structures as part of the report of the Common Agricultural Policy and promoting modernisation and structural changes in the fisheries sector, (b) facilitating development and structural changes in rural areas.

**Aim 6:** development and structural changes in very poorly populated regions (from 1 January 1995).



the Regions, Dz.U. WE nr C 125, 17 May 1982). In the 1990s, the Committee of the Regions' establishment reflected the growing role of the regions and cohesion policy, though the following weaknesses are pointed out to this day: (1) the staff structure's dependence on member states, which designate their representatives; (2) its lack of a budget (part of the Economic and Social Committee's budget); (3) it only has consultative and advisory functions; (4) it has no right to send complaints to the EU Court of Justice. Nevertheless, the Committee

of the Regions helps increase knowledge of EU policies among the local and regional authorities (Willa, 2010).

Following the reforms of 1993, the aims for 1994-1999 barely changed, though when Austria, Finland and Sweden joined the Community on 1 January 1995 an additional regulation set out a sixth aim on support for very poorly populated regions in Finland and Sweden. Additional financial support of ECU 697 m (0.5% of all funds) was provided for these two countries.

Table 2. Funds for individual aims of cohesion policy in 1994-1999

Aim	Type of aim	Inhabitants benefited (million)	Inhabitants benefited (%)	Funding (billions of ECU)	Share of funds (%)
1	Regional	97.7	24.6	94	64
2	Regional	60.6	16.3	9.4	6
3 and 4	Horizontal	-	-	15.2	10
5	Horizontal and Regional	32.7	8.8	13	9
6	Regional			0.7	0.5
13 Community initiatives	-	-	-	14	10

Source: prepared by the authors based on: European Commission (2008).

In 1994-1999, the rules on structural funds and the Cohesion Fund were set out in seven Council regulations regarding their efficiency and coordination, implementation and general principles, along with the implementation of each of the four Structural Funds. In May 1999, the European Spatial Development Perspective (ESDP) was adopted, a legal document

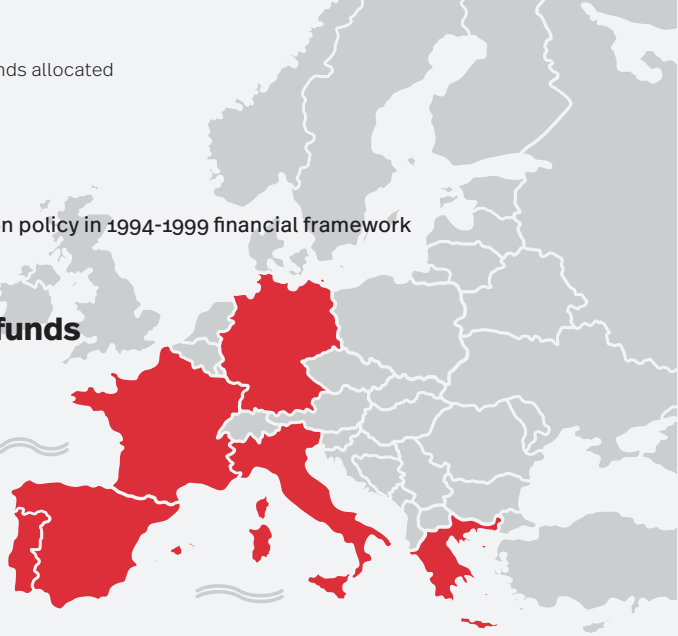
creating a framework for sectoral policies at the local, regional, national and European levels that affect spatial planning. Finally, the signing of the Treaty of Amsterdam in October 1997 introduced the European Employment Strategy, which improved coordination of national employment policies (European Commission, 2008).

➤ **Infographic 2.** Selected benefits of cohesion policy in 1994-1999 financial framework

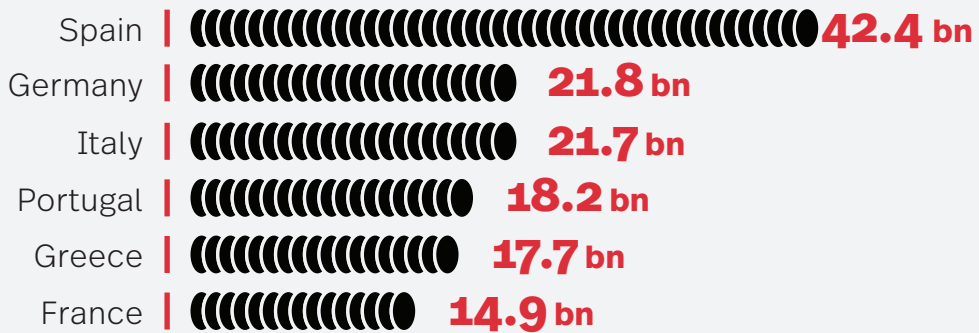
## Total budget of the structural funds and Cohesion Funds:

# ECU 168 bn

(the equivalent of EUR 113.7 bn<sup>a</sup>),  
around one-third of the EU budget  
and 0.4% of total EU GDP



### The main beneficiaries were:



## In 1994-1999, structural funds helped



**Increase real GDP by**

- an additional **4.7%** in Portugal
- **3.9%** in the former East German regions
- **2.8%** in Ireland
- **2.2%** in Greece
- **1.4%** in Spain
- **1.3%** in Northern Ireland



4100 km of motorways and 31,800 km of other roads were built or renovated



**Investment in railway infrastructure shortened travel time on key routes**, such as Athens – Thessaloniki – Idomeni (1.5 hours shorter), Lisbon – Faro (1 hour 35 minutes), Lisbon – Vilar Formoso (1 hour 20 minutes), Larne – Dublin (20 minutes) and Belfast – Derry (25 minutes).

In aim regions **1**

**700,000 jobs were created, increasing employment by 4%** in Portugal, 2.5% in Greece and from 1 to 2% in the new German regions, southern Italy and Spain

**800,000 SMEs** received direct investment assistance

In aim regions **2**

**567,000 jobs** were created

**Unemployment fell** from 11.3% to 8.7%



**ECU 3.2 bn in ERDF funds was invested** in the development of j 115.1 m m<sup>2</sup> new facilities and premises

<sup>a</sup> As part of the following funds: the European Regional Development Fund and the European Agricultural Fund for Rural Development (European Agricultural Guidance and Guarantee Fund), the Cohesion Fund.

Source: prepared by the authors based on: European Commission (2008).

Three key elements that still constitute the foundations of cohesion policy:

1. The Single European Act and, later, the Treaty of Lisbon – linking the level of economic development with regions' and member states' ability to fully participate in European integration.
2. Reference to regions' participation in economic development. This means using all regional resources. In other words, cohesion policy's task is not just redistribution, but above all mobilizing endogenous, local growth potential.
3. Cohesion policy is supposed to support structural adjustment. This means that it should focus on long-term changes involving overcoming development barriers.

At the end of the 1990s, the EU was aware that further enlargement was approaching. This time, though, it entailed significantly more concerns in the context of cohesion policy. Countries in Central and Eastern Europe, a region with a significantly lower level of economic development, were going to join. Assessing whether further integration would be beneficial for the EU became the biggest challenges in the history of European integration (Willa, 2010).

The trends in the main economic and social indicators in 1994-1999 were beneficial for

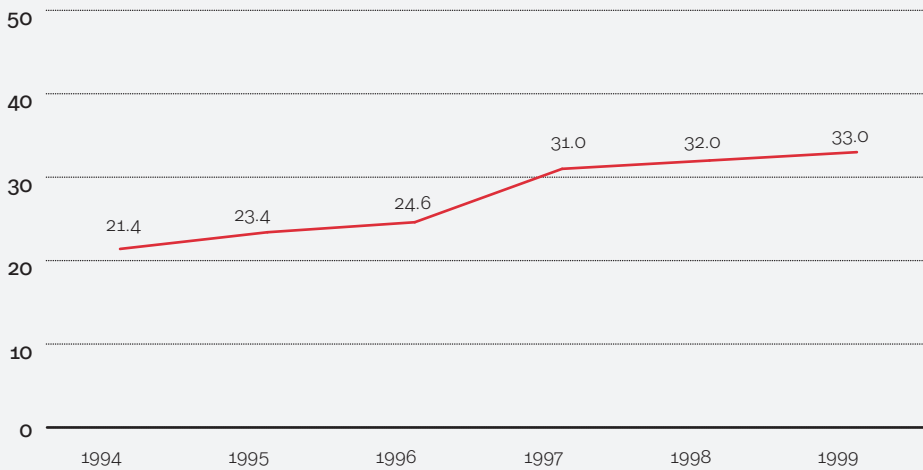
the entire EU. Against this backdrop, aim 2 regions sought to catch up with the EU economy. It can therefore be posited that interventions by structural funds contributed to positive changes in aim 2 regions in 1994-1999 (Centre for Strategy & Evaluation Services, 2003). Funds for aim 2 were increased over four times: from one-fifth of the EU budget in 1994 to one-third of it in 1999. In 1994-1999, a total of 82 regions qualified for assistance as part of aim 2. These regions were much more diverse than in 1989-1993.

At the start of the 1994-1999 period, average unemployment in the EU-12 was 11.4%. In countries covered by aim 2 programmes, there were big differences in these indicators. At the start of the period, unemployment in aim 2 regions was 11.3% on average. In eight countries (Austria, Belgium, Germany, Denmark, Spain, France, Italy and the Netherlands), there was a larger decrease in the average unemployment rate in Objective 2 regions. Four other countries (Finland, Luxembourg, Sweden and the United Kingdom) experienced lower declines in unemployment in aim 2 regions compared to overall national trends.

The share of jobs in industrial sectors was highest in Austrian aim 2 regions (Vorarlberg had the highest percentage of all aim 2 regions, 45.9%).

By 1999, the share of workers employed in industry had declined on average from 31.6% of all jobs in aim 2 regions to 29.8%. The decrease of 1.8 percentage points was somewhat lower than the 2.4 in the EU as a whole (EU-12). The percentage of people employed in industry decreased in all aim 2 regions, excluding Italy, where it remained at the same level. The clearest decrease took place in Luxembourg (4.5 pp), Belgium (4.1 pp), the Netherlands (3.5 pp) and Germany (3.5 pp). The percentage of people in the EU employed in the industrial sector declined from 29.2% in 1999 to 28.5% in 2001. In aim 2 regions, this decrease was similar: from 29.8% in 1999 to 29.2% in 2001.

▼ **Chart 11.** Structural policy's share in EU budget in 1994-1999 (%)



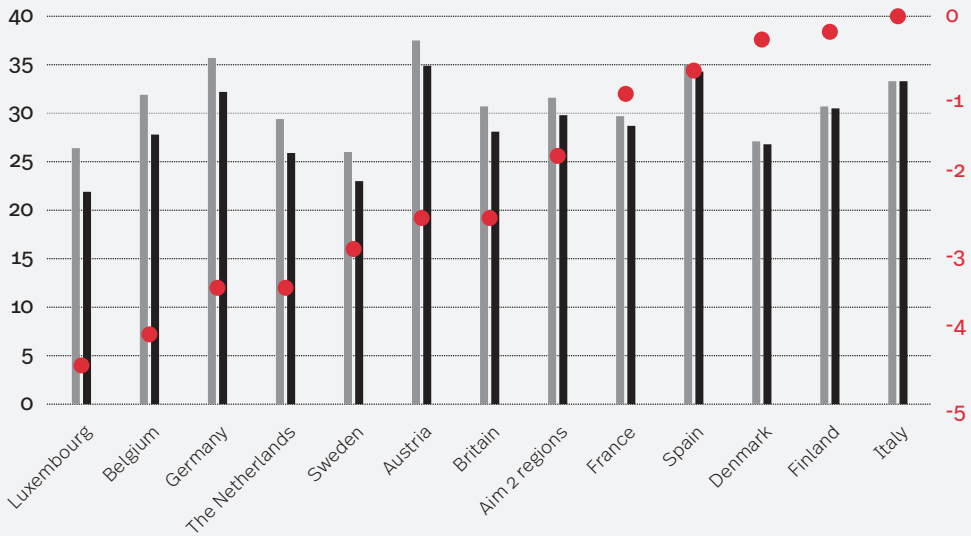
Source: prepared by the authors based on: Ekstowicz, Malinowski (2010).

▼ **Table 3.** Unemployment in 1994-1999

Country	EU members			Aim 2 regions		
	1994	1999	change in pp	1994	1999	change in pp
Austria	4,5	4	-0,5	7	6,4	-0,6
Belgium	9,7	8,8	-0,9	10,7	9,3	-1,4
Germany	8,6	8,9	0,3	9,7	9,2	-0,5
Denmark	10,7	5,6	-5,1	16,7	8,4	-8,3
Spain	24,4	16,1	-8,3	19,4	10,3	-9,1
Finland	19,4	11,5	-7,9	22,8	17	-5,8
France	12,2	11,4	-0,8	12,6	11,4	-1,2
Italy	11,4	11,7	0,3	7,8	6,8	-1
Luxembourg	3,4	2,4	-1	2,6	2,4	-0,2
The Netherlands	7,6	3,3	-4,3	9,6	4,2	-5,4
Sweden	9,6	7,6	-2	10,6	8,7	-1,9
Britain	9,7	6,1	-3,6	9,9	6,4	-3,5
EU (with aim 1)			-1,9			-1,9
EU (without aim 1)			-0,9			-0,9

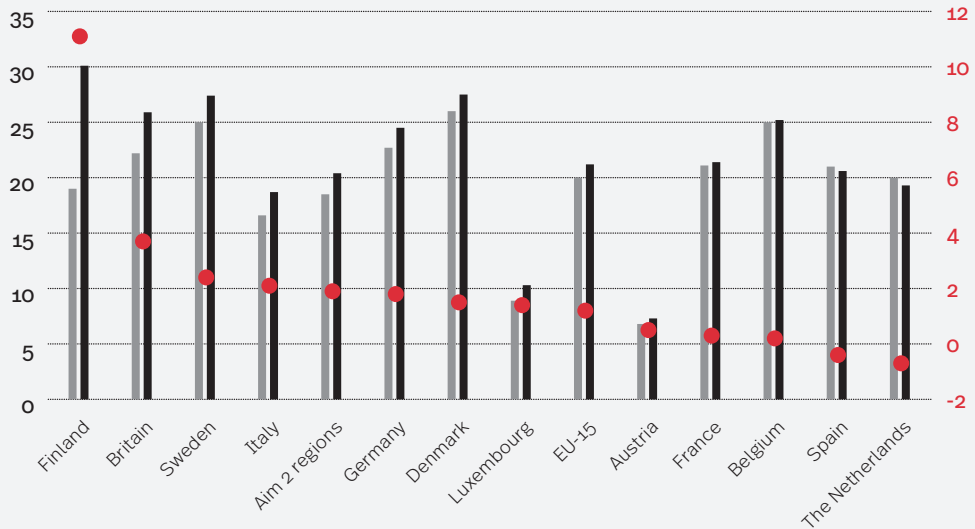
Source: Local sources for Objective 2 regions and NUTS 3 Unemployment rates supplied by Eurostat; Regional Statistical Yearbook 1995 & Second Report on Economic & Social Cohesion, Statistical Annex, Table A50.

Chart 12. Employment in industry in aim 2 regions 1993-1999 (%)



Source: Regional Statistical Yearbook 1995 & Second Report on Economic & Social Cohesion, Statistical Annex, Table A50.

Chart 13. Percentage of population in aim 2 target group in higher education



Source: Second Report in Economic & Social Cohesion Statistical Annex, Sixth Periodic Report 1999 Statistical Annex; Background Report "Enlargement Cohesion" Annex 2.

In aim 2 regions, the percentage of people with higher education during the middle of the programme, in 1997-1999, was 18.5% on average. In 1997, this percentage varied greatly, from 6.8% in Austria to 26% in Denmark. In aim 2 regions, the increase of 1.9 pp in the number of people with higher education was greater than the increase in the EU overall (1.2 pp).

By 1999, the percentage of people with higher education had risen to 20.4% (an increase of 1.9 pp) in aim 2 regions. The improvement was particularly visible in Finland (11.1%), Britain (3.7%), Sweden (2.3%) and Italy (2.1%). In other countries, the change was also positive – except two countries: the Netherlands (-0.7%) and Spain (-0.4%) – but smaller. From 1999, the percentage of people with higher education in the EU-15 continued to grow (from 21.2% in 1999 to 22.3% in 2001). In aim 2 regions, the percentage increase was slightly higher (from 20.4% in 1999 to 21.7% in 2001).

On average, the percentage of people with secondary or higher education in aim 2 regions was 60% at the start of the period and 63% in 1999. In terms of qualifications, the percentages varied greatly, from 44% in Luxembourg to 80% in Germany and Denmark. Nevertheless, the improvement in aim 2 regions in 1994-1999 in terms of education standards was not as big as in the EU overall (6.0%).

## 2000-2006 – big concerns and equally big benefits

The historic enlargement of 2004, in which ten new countries joined, increased the EU's population by 20%, but boosted its GDP by a mere 5 per cent. Differences in income and employment increased; the average GDP per capita in the new member states oscillated below half the EU average and just 56% of their

inhabitants were professionally active, compared to 64% in the EU-15 (European Commission, 2008).

In July 1997, the Commission had presented an "Agenda 2020" describing the EU's development prospects and an outline of the future budget for 2000-2006. In March 1999 in Berlin, the European Council decided on the budget for the EU-15: EUR 213 bn and an additional 22 bn for the ten new member states for 2004-2006. Five new regulations on the ERDF, the European Agricultural Guidance and Guarantee Fund (EAGGF), the Financial Instrument for Fisheries Guidance (FIFG) and the Cohesion Fund were adopted, too. In July 1999, a Council regulation on the Instrument for Structural Policies for Pre-Accession (ISPA) and the Special Accession Programme for Agriculture and Rural Development (SAPARD) was adopted (European Commission, 2008).

By combining earlier aims 2 with 5 and 3 with 4, the reform of 1999 reduced the number of structural fund aims from six to three.

### Cohesion policy's three key aims in 2000-2006

**Aim 1:** promoting development and structural adaptation of less developed regions.

**Aim 2:** supporting economic and social transformation in regions affected by structural problems.

**Aim 3:** supporting the adaptation and modernisation of policies and systems in education, training and employment.

**EUR 240.8 bn<sup>a</sup>**

EUR 214.9 bn for UE15 in 2000-2006  
and EUR 25.9 bn for the ten new member  
states in 2004-2006; around one-third  
of the EU budget and 0.4% of total EU GDP

[illegible]

Funding as part of aim helped: **1**



**Create 570,000 jobs**, including 160,000 in new member states



**In Spain, as part of structural funds, around EUR 4 bn was invested** in scientific research, the development of technology, innovation and IT; funds were allocated to over 13,000 research projects that almost 100,000 scientists were working on; most of the 64 technology parks in Spain received financial support





**In Greece, further investment in the Athens metro** reduced congestion and pollution; **eight** new stations (including four interchanges) and **17** trains were funded; in mid-2005, **17,200** passengers used them during rush hour, compared to the 15,500 forecast

**In Spain, investment in road infrastructure** helped saved around **1.2 m** hours of travel per year



Funding as part of aim **2** helped:



**Create around 730,000 jobs**



Private sector investments of **EUR 1.4 bn (37%)** in creating an information society



**In Britain, over 250,000 SMEs** received support in aim 1 and 2 aim regions; around 16,000 of them obtained direct financial support

<sup>a</sup> As part of the following funds: the European Regional Development Fund, the European Agricultural Fund for Rural Development (European Agricultural Guidance and Guarantee Fund), the Cohesion Fund and the European Social Fund.

Source: prepared by the authors based on: European Commission (2008; 2018c).

Table 4. Funds spent on individual aims of cohesion policy in 2000-2006

Aim	Type of aim	Inhabitants benefited (million)	Inhabitants benefited (%)	Funding (billions of EUR)	Share of funds (%)
1	Regional	169.4	37	173.4	75
2	Regional	69.8	15.2	22.5	10
3	Horizontal	-	-	24.1	10
4 community initiatives		-	-	11.5	5

Source: prepared by the authors based on: European Commission (2008).

The Lisbon Strategy's aims up to 2010:

Increasing spending on R&D to 3% of GDP,

Reducing bureaucracy and impediments to entrepreneurship,

Increasing employment to 70% for men and 60% for women

The provisions of the Treaty of Lisbon (an international agreement covering the reform of EU institutions) on the territorial dimension were important for the EU's cohesion policy. The provisions included the principle of promoting economic, social and territorial cohesion and solidarity between member states (Article 2 (3) of the Treaty of Lisbon amending

the TEU and the TEC, signed in Lisbon on 13 December 2007, Dz.U. U. EU No. C 306 of 17 December 2007) and the Lisbon Strategy's aims for the years ahead.

### 2007-2013 – convergence

With the EU enlargement to Bulgaria and Romania (2007) and then Croatia (2013) economic and social differences increased markedly. Per capita income in Luxembourg was seven times higher than in Romania. At the regional level, the differences were even starker: in the richest area, Inner London, per capita income was 290% the EU-27 average. In the poorest, Romania's North-Eastern Region, it was just 23% of the EU average (European Commission, 2008).

The challenge for cohesion policy in 2007-2013 was to integrate all the regions and to shift priorities to stimulate economic growth, employment and innovation. This meant the biggest allocation of funds to the poorest member states and regions in history.

**Priority aims:**

1. Convergence –accelerating the convergence of the least developed member states and regions, i.e. regions in which GDP per capita is less than 75% the EU average.
2. Regional competitiveness and employment, covering all EU regions; strengthening competitiveness, attractiveness and employment in the regions.
3. European territorial cooperation – based on the “Interreg” initiative; support for cross-border, transnational and international cooperation.

In December 2005, the European Council approved the budget for 2007-2013, dedicating EUR 403 bn to structural funds and the Cohesion Fund (in 2018 prices). 81.5% of these funds would go towards convergence regions. The radical shift in priorities meant that one quarter of funds were reserved for scientific research and innovation and around 30% for environmental infrastructure and efforts to combat climate change (European Commission, 2008). The number of financial instruments promoting cohesion was reduced from six to three: two structural funds (the ERDF and ESF) and the Cohesion Fund were kept. Support from the previous EAGGF and FIFG instruments was incorporated into the new European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF).

✎ **Table 5.** Funds spent on individual aims of coherence policy in 2007–2013

Aim	Inhabitants benefited (million)	Inhabitants benefited (%)	Funding (billions of EUR)	Share of funds (%)
Convergence	170	35.1	329.1	81.5
Competitiveness	314	64.8	64.6	16
Territorial cooperation	181.7	37.5	10.1	2.5

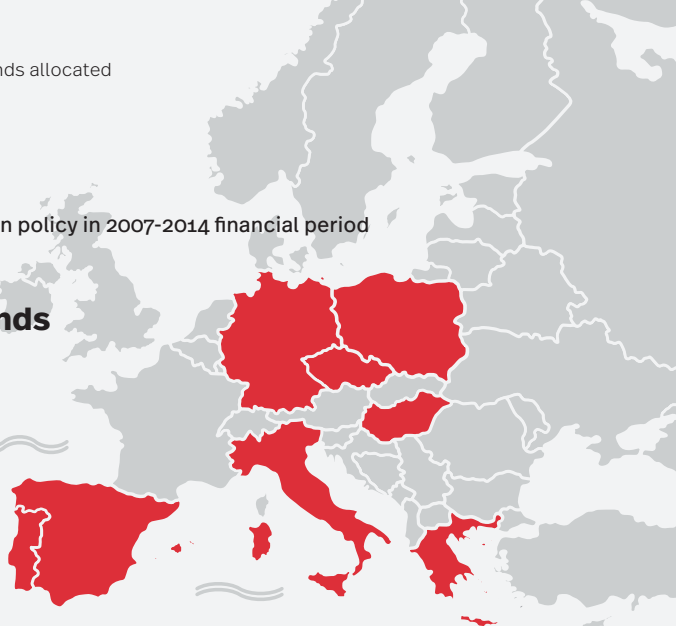
Source: prepared by the authors based on: European Commission (2008).

➤ **Infographic 4.** Selected benefits of cohesion policy in 2007-2014 financial period

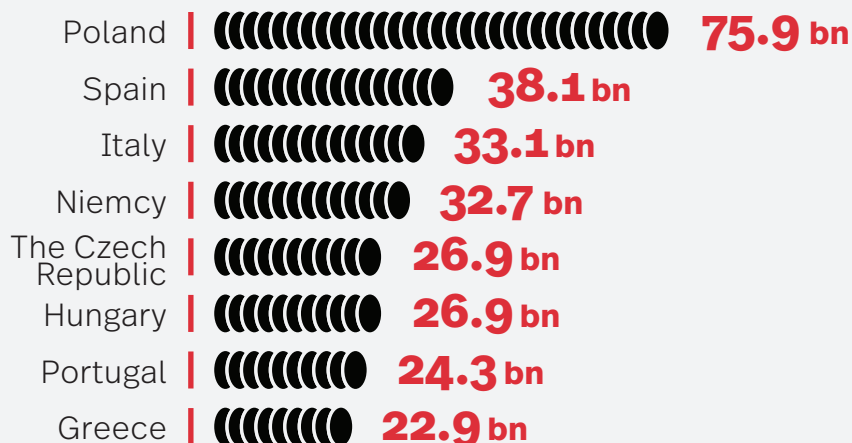
**Total budget for structural funds and Cohesion Fund:**

EUR 403 bn<sup>a</sup>

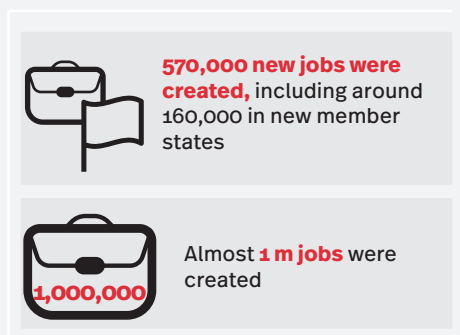
35.7% of the EU budget  
and 0.38% of the EU's total GDP



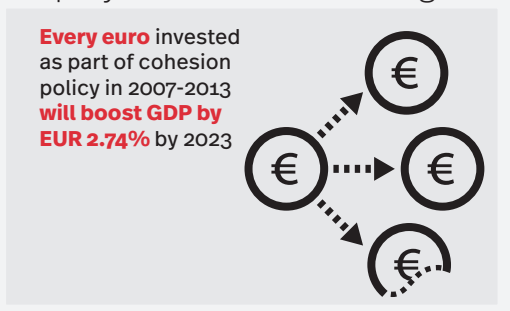
**Main beneficiaries:**



## In 2007-2013, structural funds helped



## Employment and economic growth



## Investment in people



**Almost 15 m people** participated in thousands of projects co-funded by the EFS

**2.4 m participants of the EFS's campaign** facilitating access to employment found a job within six months in 2007-2010



## Help for enterprises



**198,000 SMEs** received directed investment assistance



**77,800 start-ups** received support

## Intensification of scientific research and innovation



**61,000 research projects** received financial support

Another **5 m EU citizens** have broadband access



**21,000 long-term research positions** were created

## Environmental protection



Modernising water supply systems improved the living conditions of **3.2 m citizens**

**9400 projects** stimulated sustainable urban development and helped make cities more attractive



## Modernisation of transport networks



**1200 km of roads and 1500 km of railway lines** were built as part of creating the Trans-European Transport Networks (TEN-T).

<sup>a</sup> As part of the following funds: European Regional Development Fund, European Agricultural Fund for Rural Development (European Agricultural Guidance and Guarantee Fund), Cohesion Fund, European Social Fund.

Source: prepared by the authors based on: European Commission (2008; 2014; 2016).

### *Effects of cohesion policy in selected countries in Central and Eastern Europe (CEE) so far*

The theory of economic growth and the convergence hypothesis assume that the GDP growth rate per capita in poorer countries will be faster than in countries with a higher level of development to begin with (Aghion, Howitt, Mayer-Foulkes, 2004). This is due to the gradual accumulation of capital in less affluent countries, the imitation of technological solutions used in other countries and the inflow of foreign direct investment. Table 6 shows that in 1999-2017 most of the real economic growth dynamics in the new countries was above the EU average. Before joining the EU, new members were steadily approaching the EU average. However, between 2005 and 2008, economic growth accelerated in all the countries except Hungary, bringing them closer to the average level of economic development in EU-28 countries. The crisis years of 2009-2011 were a challenge for cohesion policy, leading to stagnation in Bulgaria, Hungary and Romania. The situation also deteriorated in the Czech Republic. Poland was the only country in which GDP continued to approach the EU average.

In addition to GDP growth, productivity in the CEE countries increased<sup>1</sup>, getting closer to the EU average. Of the countries that joined the

EU in 2007, Romania improved the most. In 2000, labour productivity there had been 22% of the average. By 2008, it was close to 46% and now it is almost 60%.

Funds from the EU's cohesion policy increased the CEE economies' convergence with EU ones. According to macroeconomic simulations, EU funds from the 2007-2013 financial framework increased real GDP per capita in the Visegrad Group countries and Bulgaria, Romania, Slovenia and Croatia (the V4 + 4) by 4.5 pp compared to the basic scenario without EU funds. In 2006-2015, the V4 countries decreased the gap in economic development by 14.3 pp and reached 72.3% of the average GDP per capita in the EU. This means that EU funds accounted for around 31% of the convergence in real GDP observed in the V4 countries over this period (Imapp, 2017).

Relatively speaking, interventions contributed the most to convergence in the Czech Republic, where they accounted for an increase of 6.6 pp in real GDP above the average for the EU-28, constituting the main motor of economic growth. EU funds' contribution to convergence of real GDP with the EU-28 average was lower in the other V4 countries, but still significant; from 22% in Poland (the EU contribution accounted for 4 pp and the total change was 17.9 pp) to 52% in Hungary (EU contribution 3.7 pp, total change 7.1 pp) (Imapp, 2017).

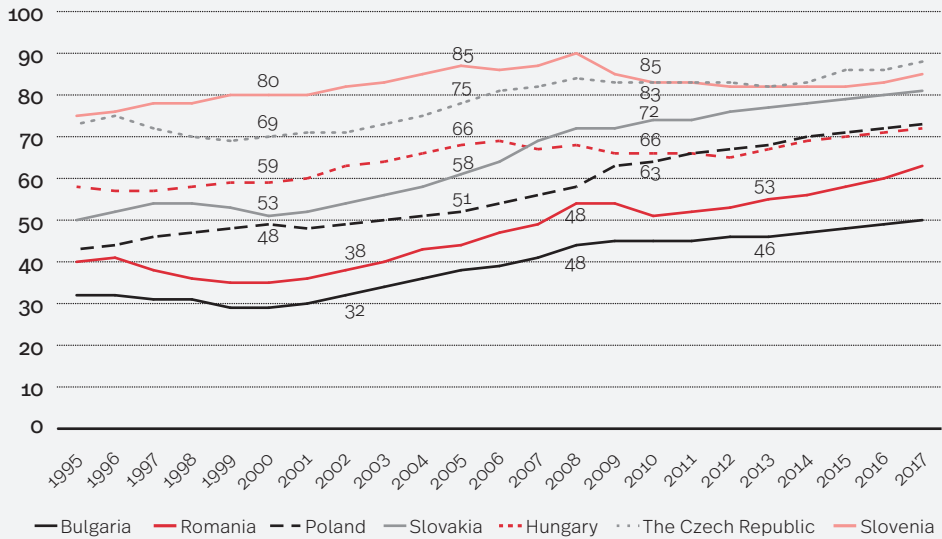
<sup>1</sup> In this report, Central and Eastern Europe (CEE) refers to the following countries: Bulgaria, the Czech Republic, Poland, Romania, Slovakia, Slovenia and Hungary.

▼ **Table 6.** Real GDP growth, percentage change compared to the previous year

Country	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Poland	4.6	4.6	1.2	2.0	3.6	5.1	3.5	6.2	7.0	4.2	2.8	3.6	5.0	1.6	1.4	3.3	3.8	3.0	4.6
Slovakia	-0.2	1.2	3.3	4.5	5.4	5.3	6.8	8.5	10.8	5.6	-5.4	5.0	2.8	1.7	1.5	2.8	4.2	3.1	3.2
Slovenia	5.3	4.2	2.9	3.8	2.8	4.4	4.0	5.7	6.9	3.3	-7.8	1.2	0.6	-2.7	-1.1	3.0	2.3	3.1	4.9
Romania	-0.4	2.4	5.6	5.2	5.5	8.4	4.2	8.1	6.9	8.3	-5.9	-2.8	2.0	1.2	3.5	3.4	3.9	4.8	6.9
Bulgaria	-6.0	4.9	3.8	5.9	5.2	6.4	7.1	6.9	7.3	6.0	-3.6	1.3	1.9	0.0	0.9	1.3	3.6	3.9	3.6
The Czech Republic	1.4	4.3	2.9	1.7	3.6	4.9	6.5	6.9	5.6	2.7	-4.8	2.3	1.8	-0.8	-0.5	2.7	5.3	2.5	4.3
Hungary	3.2	4.2	3.8	4.5	3.8	5.0	4.4	3.9	0.4	0.9	-6.6	0.7	1.7	-1.6	2.1	4.2	3.4	2.2	4.0
EU	3.0	3.8	2.2	1.4	1.3	2.5	2.1	3.3	3.1	0.5	-4.3	2.1	1.8	-0.4	0.3	1.8	2.3	2.0	2.4

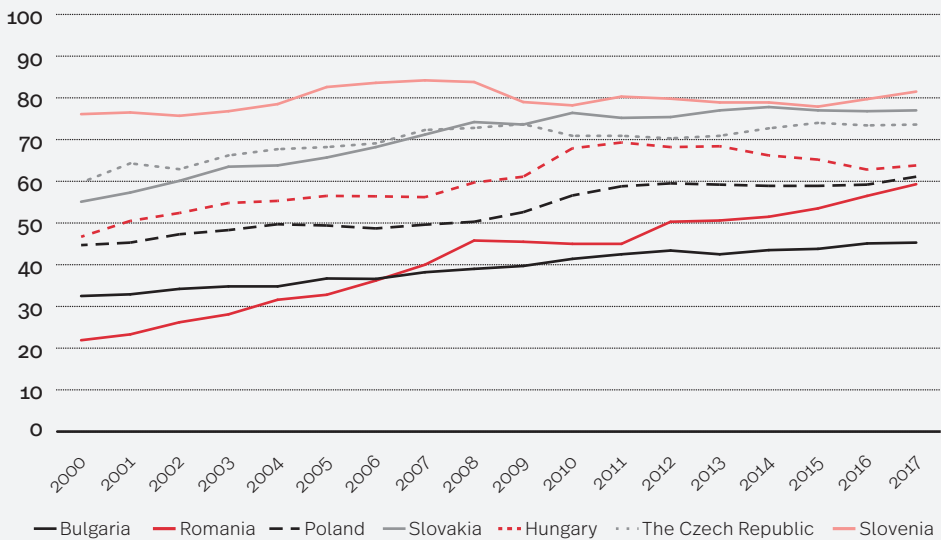
Source: prepared by the authors based on: Eurostat data.

▼ **Chart 14.** Pace of CEE countries' convergence with EU-28



Source: prepared by the authors based on: Eurostat data.

▼ **Chart 15.** Ratio of labour productivity to the EU-28 average



Source: prepared by the authors based on: Eurostat data.



# +14.3 pp

in additional GDP growth per capita in the V4 countries  
compared to the EU-28 in 2015  
(compared to the EU-28 in 2006).

# 31%

contribution of EU funds to the convergence in real GDP  
per capita observed in the V4 countries.

According to simulations based on the Commission's models, EU funds contributed significantly to economic growth in the other V4 + 4 countries. According to estimates, real GDP in Bulgaria, Romania and Slovenia was 2.5-4.0% higher at the end of 2015 than in the basic scenario without EU funds (Imapp, 2017).

Analysing income inequality in EU countries reveals a correlation between economic development and the level of socio-economic inequality. Chart 18 presents the distribution of income inequalities in EU member states. In 2007, three groups varied in terms of inequality could be distinguished. The group with the highest inequality was made up of the most underdeveloped countries in the EU: Romania (8.1) and Bulgaria (7.0). The group with the lowest inequalities included the Czech Republic (3.5), Slovakia (3.5) and Hungary (3.7). These countries recorded better macroeconomic results in relative terms, both while the economy was growing and in recession. Poland (5.3) was between both groups; it was the only country where the economy grew during the crisis, but at the cost of increasing inequality. By 2017, growth in income inequality had changed the distribution: in Bulgaria, it had grown significantly since 2012, overtaking that in Romania. It decreased in Poland and increased gradually in Hungary, bringing these two countries closer together in terms of income inequality.

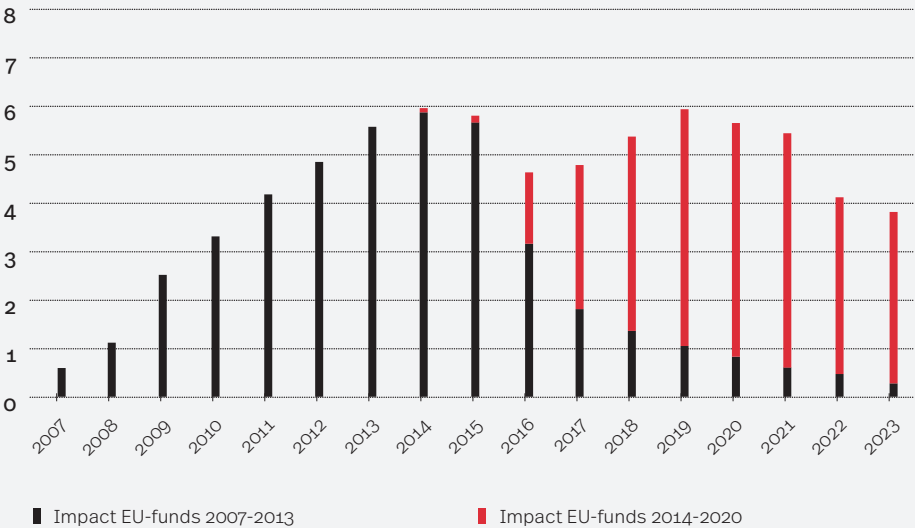
Apart from economic indicators, an important effect of cohesion policy in the CEE countries

has been the development of human capital and improvement on the labour market. They are important because, at the start of the 2007-2013 financial framework, the CEE countries were in a much tougher situation than other member states, with unemployment was above the EU-28 average and employment was below the Community average (apart from the Czech Republic). Unemployment was highest in Slovakia and Poland, though at the same time employment was lowest in Poland. In Hungary, the level of employment was similar, but unemployment was lower. In the Czech Republic and Slovakia, labour market indicators were the closest to the EU average.

The European Social Fund's total budget for interventions in CEE was around EUR 24.5 bn in the 2007-2013 financial framework. Poland and Romania spent the most relative to GDP per capita on developing social capital, while Slovakia and Bulgaria spent the least. Poland and Hungary spent the most on improving the situation on the labour market and countering social exclusion; Bulgaria spent the least.

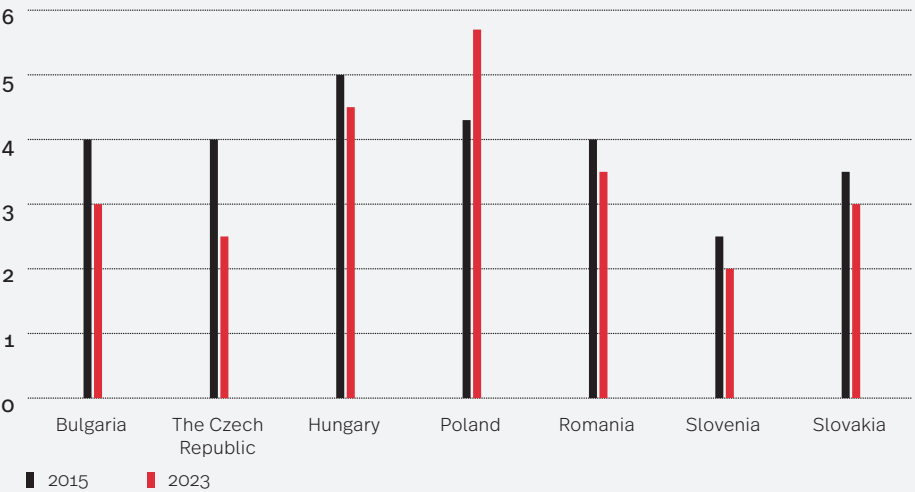
Given that education is the best way of combating social exclusion, it is unsurprising that over 40% of ESF funds were spent on training in the CEE countries. The ESF intervention was largely addressed to special groups. Many of the participants had a low level of education (ISCED 1 and 2 – so, in Poland's case, primary or middle school). They accounted for 37% of all people who received support, with the highest percentage recorded in the Czech Republic and Slovakia. The statistics differed in the scope of intervention. The high percentage of participants with a low level of education resulted from this being the target group and the project's scope. Secondary school pupils may have pushed up the statistics. A higher percentage of well-educated participants took part in projects for unemployed people than the percentage of them among people registered at job centres (in Poland) (Imapp, 2017).

Chart 16. Impact of cohesion policy on economic growth in the V4 in 2007-2023



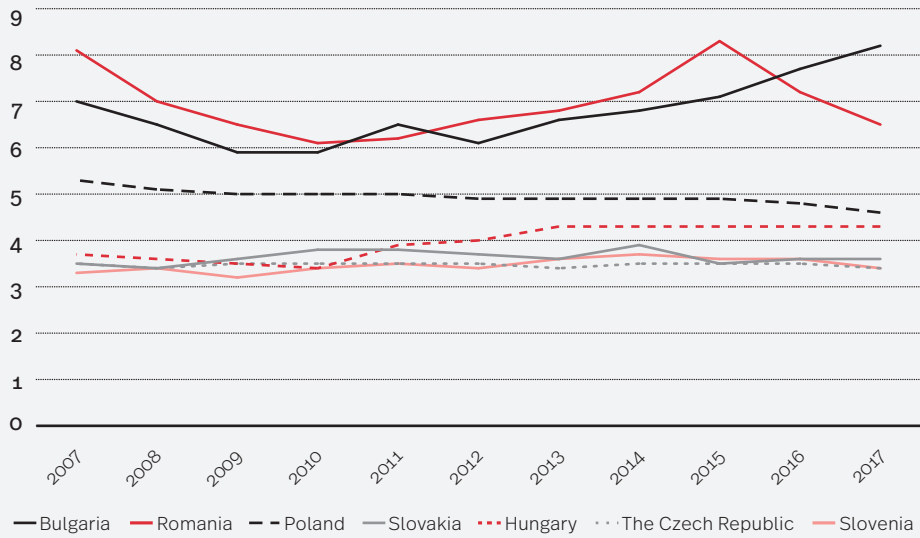
Source: Imapp (2017).

Chart 17. Impact of EU funds on GDP in CEE countries in 2007-2014



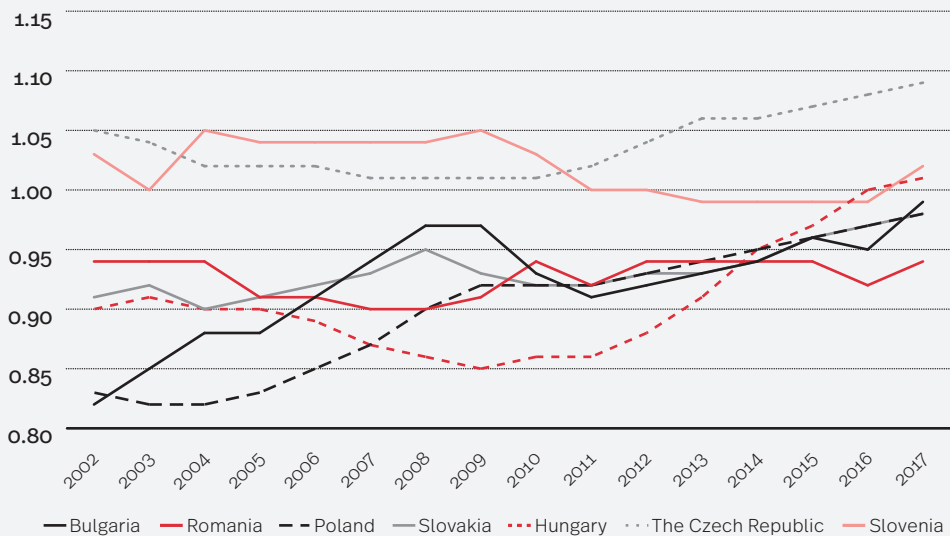
Source: Imapp (2017).

▼ **Chart 18.** Distribution of income inequality in EU member states using quintile coefficient of income differentiation



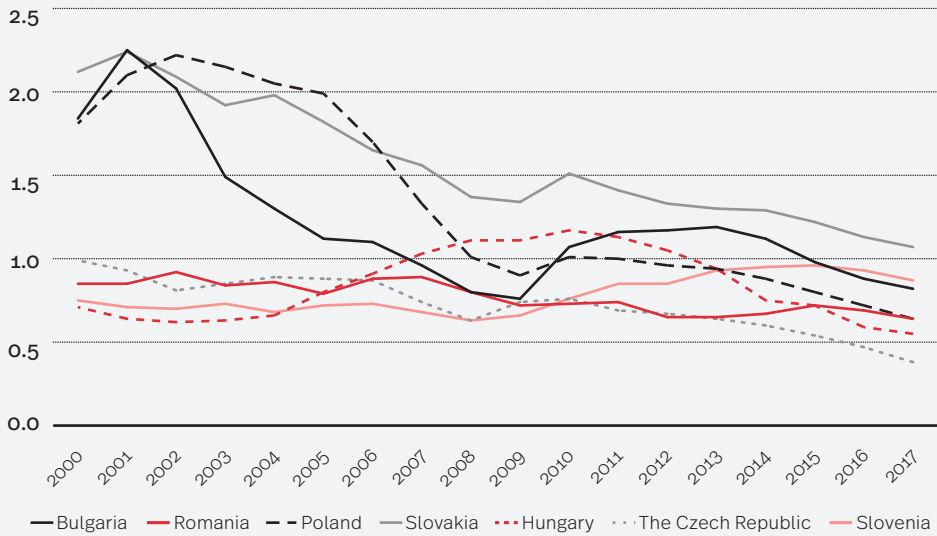
Source: prepared by the authors based on: Eurostat data.

▼ **Chart 19.** Pace of employment convergence in CEE countries relative to the EU-28 average



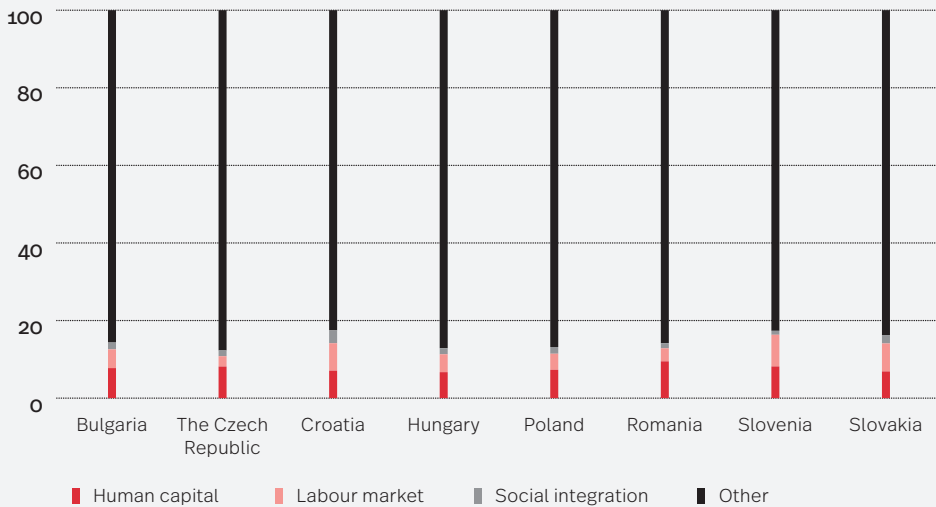
Source: prepared by the authors based on: Eurostat data.

▼ **Chart 20.** Pace of unemployment convergence in CEE countries relative to the EU-28 average



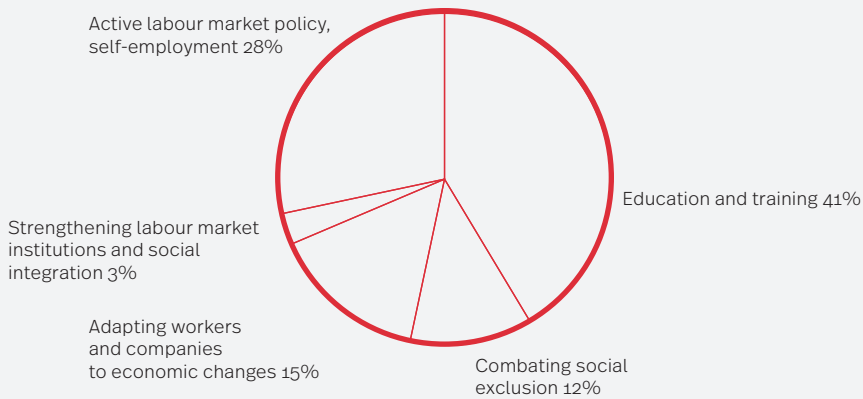
Source: prepared by the authors based on Eurostat data.

▼ **Chart 21.** Share of EU subsidies spent on human capital and the labour market in 2007-2013 financial framework (billions of EUR)



Source: Imapp (2017).

▼ **Chart 22.** Allocations by support area in the V4 + 4 countries (%)

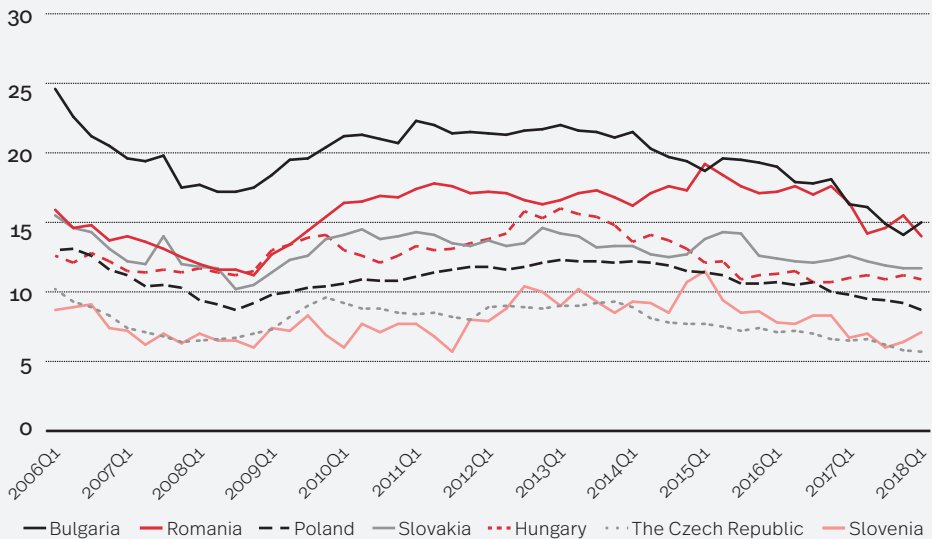


Source: Imapp (2017).

The percentage of people aged 15-24 who were not in employment, education or training (NEETs) was highest in Bulgaria and Romania. In the other V4 + 4 countries, the

percentage of NEETs was close to the EU average. Yet lifelong learning (LLL) was much less widespread in the V4 + 4 countries than in other member states.

▼ **Chart 23.** Percentage of NEETs in the 15-24 age group

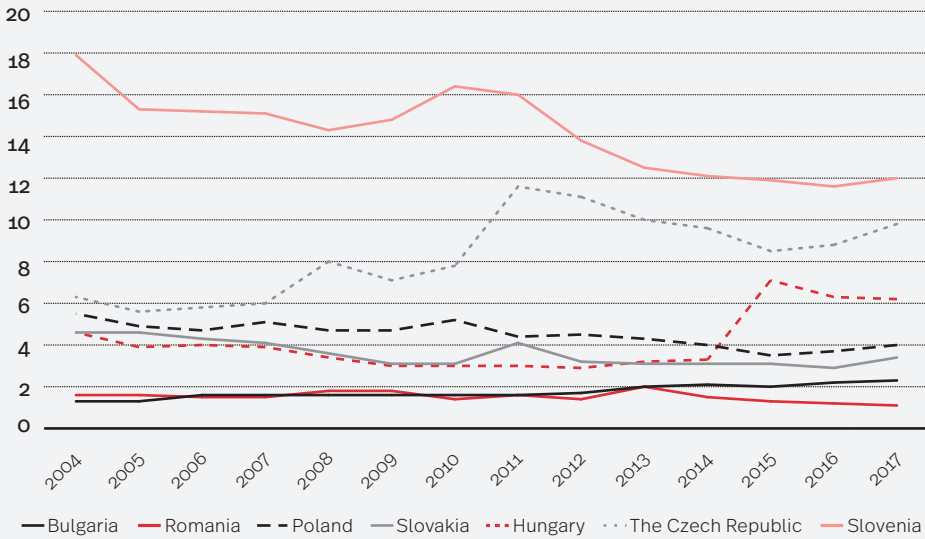


Source: prepared by the authors based on Eurostat data.

Data on lifelong learning was also worrying. Despite focusing investment on human capital, the indicators in Poland and Slovakia were

low at the start of the financial framework and fell sharply in its final year, only rising in Hungary and the Czech Republic (Imapp, 2017).

Chart 24. Lifelong learning (LLL) among people in the 25-64 age group (%)



Source: prepared by the authors based on Eurostat data.

**1.5 m**  
of participants in ESF projects found jobs

**38-74%**  
estimated employment efficiency

The main aim of many of the efforts funded by the ESF was to support employment. According to the aggregated results, about 1.5 m participants in the V4 + 4 countries found jobs. Employment efficiency is difficult to estimate, as the indicator has not been consistently calculated in all member states. According to accurate estimates for the Czech Republic and Poland, employment effectiveness was close to 70% (67-74% for Poland, 74% for the Czech Republic). According to estimates for Hungary, it was around 38% for the six months after the project ended. Interventions for people with disabilities in Hungary had an employment efficiency of 29%. One of the key measures of interventions' impact are indicators based on

qualifications and certificates obtained. According to estimates, ESF interventions in the V4 + 4 countries generated over 3.8 million qualifications, which means that one in five participants in human capital projects received or confirmed their qualifications. Estimates do not include acquired but uncertified qualifications, other positive proceeds or participation in training projects. According to estimates, there were an extra 6 m of these qualifications in all the V4 + 4 countries (Imapp, 2017).

Changes at the individual level perceived by direct recipients of support are not always reflected in global figures. Labour market indicators largely reflect changes that go beyond the scope of interventions co-funded by the EU. Between 2007 and 2015, there was an unfavourable development in the labour market, which was insufficiently addressed by ESF support. At the same time, demand for work in the V4 + 4 population improved, especially in Hungary, Poland and the Czech Republic (Imapp, 2017)

#### Selected impact of cohesion policy implemented in 2007-2013 in various CEE countries

**In the Czech Republic**, a simplified financial allocation system for schools enabled 90% of primary and secondary schools to participate in quality-improvement projects. ESF projects also improved individuals' situation: 94% of people who completed employment-related projects found jobs or continued their education. 68% of them attributed the improvement to participating in the project.

**In Bulgaria**, particularly successful projects reduced illiteracy among adults and improved the access of children with special educational needs to schools. As a result, more than half of them joined the general school system, enrolling at 450 institutions.

**In Slovakia**, programmes supporting youth vocational training were particularly effective and helped participants find jobs.

**In Hungary**, employment projects were particularly effective for participants who had left the labour market to look after a dependent and for unemployed people over the age of 50.

**In Romania**, social integration projects focused on special groups were the most successful. Extensive support helped funding be used effectively, with satisfactory results.

Source: Imapp (2017).

### Selected impact of cohesion policy implemented in 2007-2013 in Poland

An estimated over 11% of average annual growth in Polish GDP 2004-2016 resulted from the implementation of projects co-funded by the EU. The distance between Poland and the EU-28, measured in GDP per capita (in PPS – purchasing power standard), decreased by 21 pp, of which almost one-fifth resulted from cohesion policy.

EU expenditures boosted gross fixed capital formation by over 30%. The investment rate was at least 5 pp higher than it would have been without EU financial assistance.

Labour productivity improved: EU funds reduced the difference in work efficiency between Poland and the EU-28 average by about 2 pp. EU funds helped increase the percentage of GDP spent on R&D; in recent years, this impact was an estimated 0.3 pp.

Nearly one-fifth (around 2.3 pp) of the increase in employment in 2004-2016 stemmed from investments co-funded by the EU. The estimated number of jobs created by investments co-funded by the EU is 500,000-600,000.

There was a significant impact in the reduction of unemployment; on average, it was about 3 pp lower than without investments co-funded by the EU, which in absolute terms more than half a million fewer unemployed people.

EU funds also helped reduce poverty, by about 5 pp. Cohesion policy also contributed to reducing income inequality (measured using the Gini coefficient) by around 2.0-2.5 pp.

The influx of EU funds improved the general government sector's result and lowered the public debt to GDP ratio; EU funds improved the sector's result by 1.1 pp and slashed debt by around 12 pp.

Cohesion policy contributed slightly to the deepening of the current account deficit in relation to GDP (by 0.2 pp per year on average).

Source: Ministry of Development (2017).

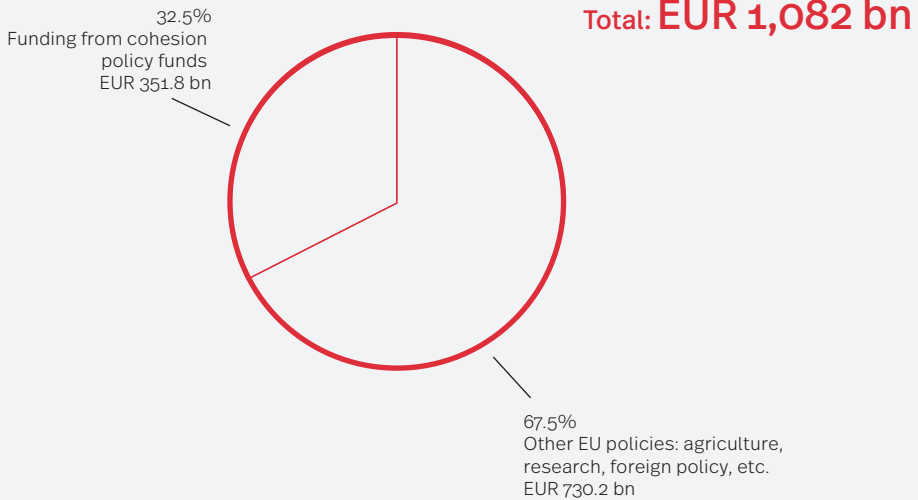
### 2014-2020 – cohesion policy today

Today's cohesion policy for 2014-2020 is subordinated to achieving the aims of the "Europe 2020" strategy. It concentrates on intelligent and sustainable development fostering social inclusion in the EU and countering the globalisation of crisis phenomena. The following aims are formulated in the strategy: an employment rate of 75% among people aged 20-64,

investment in R&D at 3% of EU GDP, reducing greenhouse gas emissions by 20% compared to 1990, generating 20% of energy from renewable sources, lowering the percentage of people leaving education early to below 10%, increasing the percentage of people aged 30-34 with higher education to at least 40% and reducing the number of people living in poverty and affected by social exclusion (or at risk of it) by at least 20%.

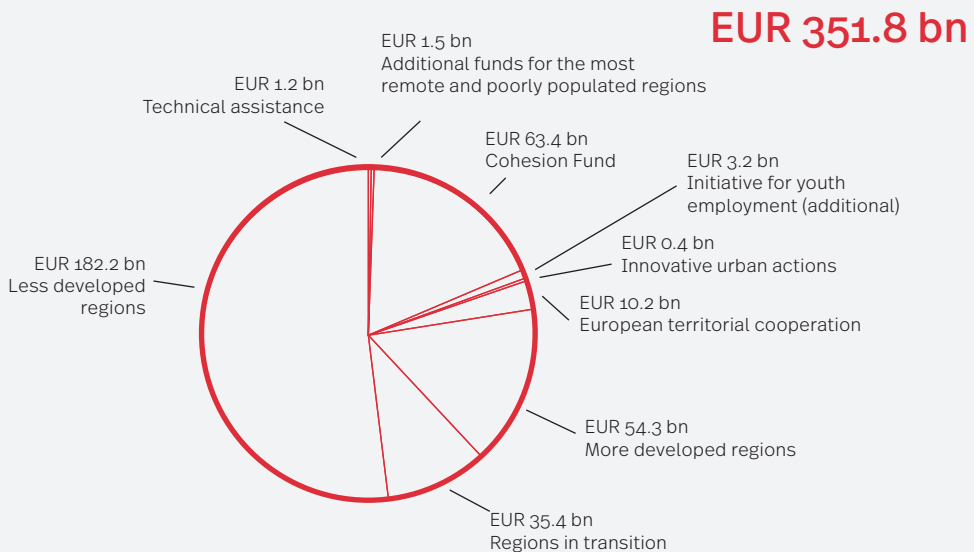


Chart 25. Total EU budget for 2014-2020



Source: European Commission (2014).

Chart 26. Funding from cohesion policy funds in 2014-2020

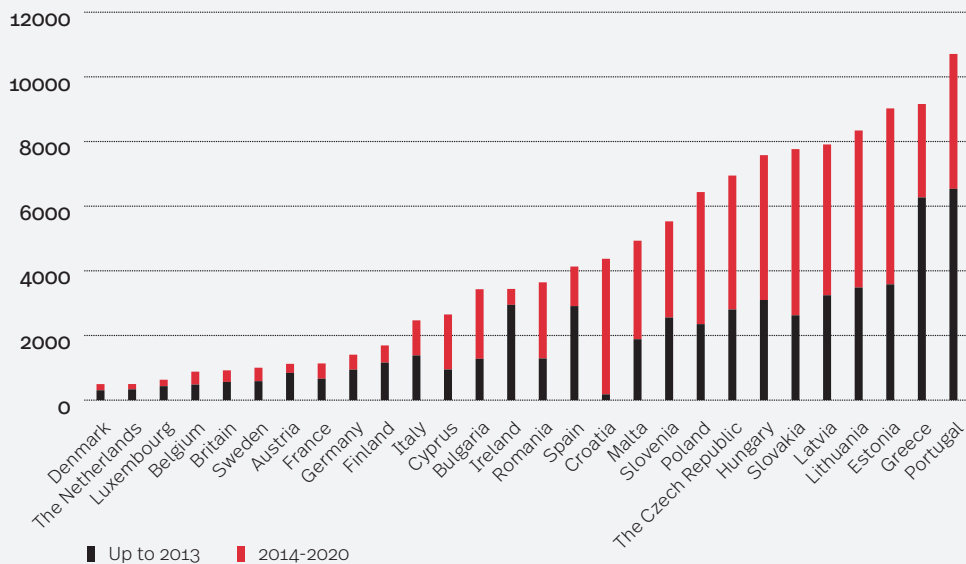


Source: European Commission (2014).

Portugal has been the biggest-ever beneficiary of cohesion policy, followed by Greece and then the Baltic states, Estonia, Lithuania and Latvia. Slovakia, Hungary and the Czech Republic have

also received more in EU funds than Poland measured per capita. The richest countries received the least money per inhabitant; Denmark, the Netherlands, Luxembourg, Belgium, Britain and Sweden.

Chart 27. Funds from cohesion policy per capita received by countries up to 2013 and in 2014-2020 (EUR)



Source: prepared by the author based on: European Commission (2019).

### Cohesion policy is good for everyone

Convergence, which the most cohesion policy funds have been spent on, not only benefits the region that received financial support. Net payers (and the rest of the world) have also benefited greatly from the CEE countries' development. The biggest investors in the CEE economies are Germany, the Netherlands and France. For the EU's western member states, the benefits of investing are obvious: lower labour costs without having to move production too far away from traditional markets and without violating labour law in their country.

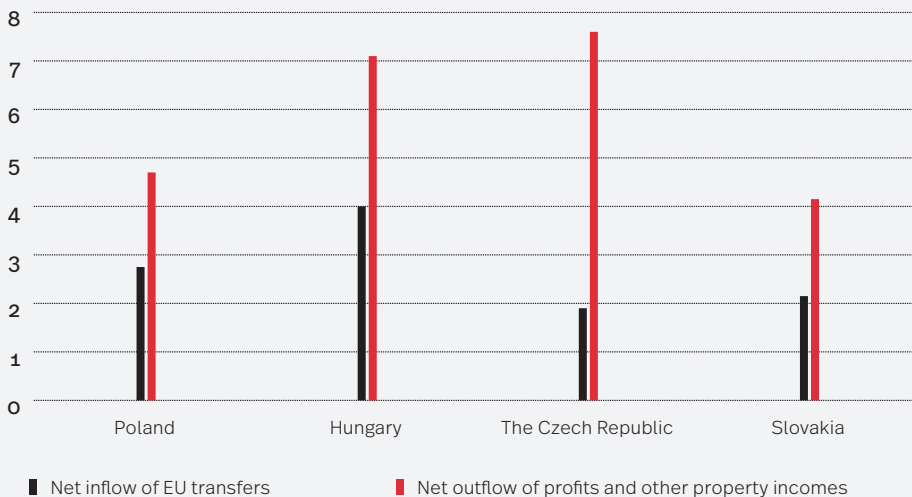
After the fall of communism, western investors (especially Germany) gradually became the owners of a significant part of capital in the former Eastern Bloc countries. According to Piketty, this capital constituted around a quarter of it if we take into account the total stock of fixed assets (including housing), and more than half if we limit ourselves to company ownership (and even more in the case of big companies). Philip Novokmet's research proved that inequality did not increase as strongly in Eastern Europe as in Russia or the US because a significant part of higher revenue

from Eastern European capital is spent abroad (Piketty, 2018).

In 2010-2017, the annual outflow of profits and income from real estate amounted to an average of 4.7% of GDP in Poland, 7.2% in Hungary, 7.6% in the Czech Republic and 4.2% in Slovakia, reducing these countries' national income proportionally. For comparison, over the same period, annual net transfers from the EU (the difference between the total amount received

and the contributions to the EU budget) were lower: 2.7% of GDP in Poland, 4.0% in Hungary, 1.9% in the Czech Republic and 2.2% in Slovakia. France, Germany and Britain are net contributors to the EU budget; their contributions amount to 0.3-0.4% of their GDP. Of course, one can argue that Western investments made it possible to increase the economies' productivity, and hence that everyone has benefited (Piketty, 2018).

➤ **Chart 28. Inflows and outflows in the V4 in 2010-2016 (% of GDP, annual average)**

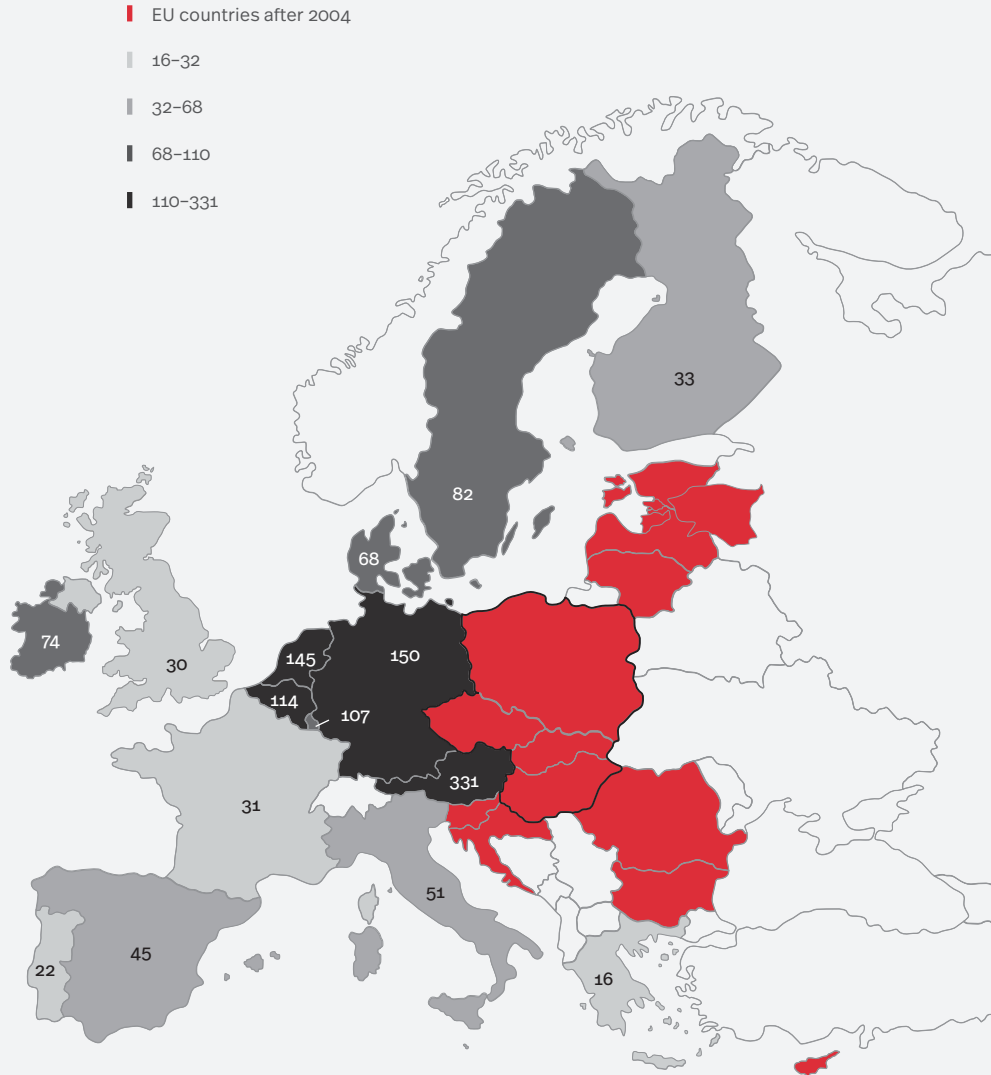


Source: Piketty (2018)

As Darvas notes, Piketty's indicator also includes reinvested profits – the part of foreign companies' profits that did not come from Central Europe, but were invested there. Most profits recorded by producers in Central Europe is linked to exports to Germany, China and other countries, so a large part of them come from consumers beyond Central Europe, which

makes it difficult to observe what part of the outflow of profits decreases the region's inhabitants' income. The political divide between East and West really is a key challenge for the EU, but not because foreign companies have an undesirable influence over European citizens or because EU membership has led to financial losses (Darvas, 2018).

▼ **Infographic 5.** Total economic benefits for old member states in terms of payments for implementing cohesion policy in the Visegrad Group countries in 2007-2013 (billions of EUR, %)



Source: prepared by the authors based on Antosiewicz et al. (2017).

“ A significant part of every euro that the EU transfers to Poland returns to Germany. (...) Poles use the money to place orders in the German construction industry, to purchase German machines and trucks. Net payers like Germany should be interested in the existence of structural funds. From an economic point of view, Germany is not a net payer, but rather a recipient. ”

Günther Oettinger, European Commissioner for Budget and Human Resources

According to estimates, the total benefits obtained by old member states from the implementation of cohesion policy programmes in the V4 countries in 2007-2013 was around EUR 75 bn (in 2005 fixed prices). This means that every net euro invested in implementing cohesion policy in the V4 by the EU-15 generates an additional 57 cents due to additional exports and 61 cents if we only include net contributors (Zawistowski 2011).

Economic development in countries like Poland or Slovakia is one-twentieth higher due to the spending of EU funds (Antosiewicz et al., 2017). Yet 80% of those funds have returned to the countries that transferred them. In 2007-2015, cohesion policy in the V4 countries boosted old member states' exports to those four countries by a total of EUR 225.8 bn, around 0.2% of the EU-15 countries' GDP. The total economic benefits for the old member states of the implementation of cohesion policy in the V4 over that period amount to about EUR 97 bn. EU-15 countries transferred around EUR 120 bn gross for this purpose, so profits – in the form of additional exports and capital benefits – amounted to around 80% of expenditure. Moreover, some countries gained much more than they passistance in. For every euro transferred, the German economy gained EUR 1.5 and the Austrian one over EUR 3.

The benefits for the EU-15 from the V4 countries using structural funds and the Cohesion Fund lowered the cost of implementing cohesion policy. For Austria (331%), Germany

(150%), the Netherlands (145%), Belgium (114%) and Luxembourg (107%), the value generated from additional exports due to cohesion policy in the V4 countries compensated for the cost of implementing it.

### 2021-2027 – a new cohesion policy

For the EU's next multiannual budget (2021-2027), the Commission proposes to update cohesion policy, the EU's main investment policy and one of its most concrete expressions of solidarity (European Commission, 2018d). The aim is to increase economic and social cohesion while helping all the regions take full advantage of globalisation and equipping them all with tools for solid and lasting economic growth. Three categories define the scope of funding as part of EU cohesion policy: underdeveloped regions, transition regions and more developed regions (European Commission, 2018e).

## EUR 330 bn

Commission's planned spending on economic, social and territorial cohesion in 2021-2027

### *A better targeted approach to regional development*

Investment as part of cohesion policy will continue to apply to all regions in one of the three categories: less developed, in transition and better developed. Although the method for allocating funds will largely be based on GDP per capita, new criteria will be considered to better reflect the situation on the ground: youth unemployment, a low level of education, climate change and actions linked to the admission and integration of migrants.

Cohesion policy will continue to support bottom-up development strategies and strengthen the local authorities' role in managing funds. The importance of the urban dimension of cohesion policy will increase by allocating 6% of ERDF funds to sustainable urban development and establishing a new networking and capacity-building programme for urban authorities in the European urban initiative (European Commission, 2018d).

“We propose a cohesion policy for all regions – a policy that leaves no-one behind. We have made it more flexible to adapt it to new priorities and better protect our citizens. We have also simplified the regulations, which will benefit all entities – from small enterprises and entrepreneurs to schools and hospitals, for which it will be easier to obtain funds.”

Corina Crețu, European Commissioner for Regional Policy

Compared to the 11 thematic aims for 2014-2020, the new cohesion policy will focus on five priorities where the EU is best equipped to succeed.

#### *Cohesion policy's 5 investment priorities after 2020*

1. A more intelligent Europe thanks to innovation, digitisation, economic transformation and support for SMEs.
2. A more eco-friendly, emission-free Europe, implementing the Paris Agreement and investing in the transformation of the energy sector, renewable energy sources and combating climate change.
3. A better-connected Europe, with a strategic transport network and a digital network.
4. A Europe with a stronger social dimension, pursuing the European pillar of social rights' aims and investing in high-quality employment, education, skills, social integration and equal access to healthcare.
5. A Europe closer to its citizens by supporting local development strategies and sustainable urban development across the EU.

Source: prepared by the authors based on: European Commission (2018e).

▼ **Table 7. Planned funds as part of cohesion policy in 2021-2027 and change in relation to the previous funding period**

Country	Allocation of funds in 2021-2027		Intensity of support	
	Billions of euros in 2018 prices	Change in relation to 2014-2020 (%)	euros per inhabitant	Change in relation to 2014-2020 (%)
Malta	0,6	-24	197	-28
The Czech Republic	17,8	-24	242	-25
Poland	64,4	-23	239	-24
Hungary	17,9	-24	260	-22
Estonia	2,9	-24	317	-22
Slovakia	11,8	-22	310	-22
Germany	15,7	-21	27	-20
Ireland	1,1	-13	33	-17
Luxembourg	0,1	0	16	-14
Lithuania	5,6	-24	278	-12
Slovenia	3,1	-9	213	-11
France	16	-5	34	-9
Sweden	2,1	0	31	-6
Portugal	21,2	-7	292	-5
Belgium	2,4	0	31	-5
Cyprus	0,9	2	147	-5
Austria	1,3	0	21	-4
Denmark	0,6	0	14	-3
The Netherlands	1,4	0	12	-3
Latvia	4,3	-13	308	0
Croatia	8,8	-6	298	0
Finland	1,6	5	42	2
Spain	34	5	105	3
Italy	38,6	6	91	5
Greece	19,2	8	254	12
Bulgaria	8,9	8	178	15
Romania	27,2	8	196	17

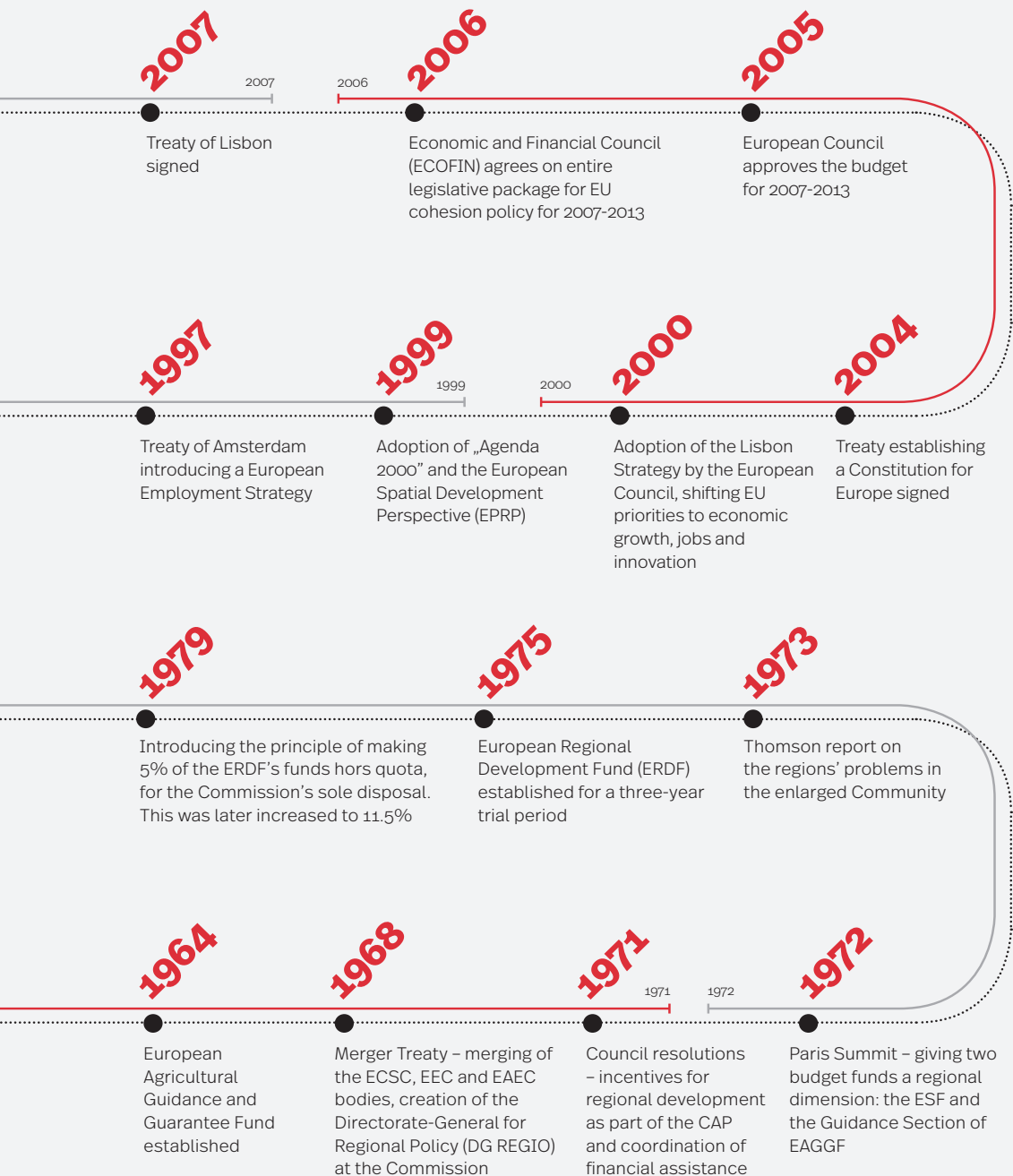
Source: prepared by the authors based on: European Commission (2018b).

» Infographic 6. Cohesion policy timeline



Source: prepared by the authors.





Most investments from the European Regional Development Fund and the Cohesion Fund will focus on two fundamental aims: a more intelligent Europe and a zero-emission, more eco-friendly Europe. Depending on their relative wealth, member states will invest from 65% to 85% of their investment share from both funds in these priorities. “Thematic concentration”, the allocation of resources for specific policy objectives, will no longer take place at regional level, but rather at the national level. This will allow greater flexibility when planning individual programme from EU funds, so that they can be better adapted to regions’ specific needs.

In line with the Commission’s commitment in the proposal for the EU’s next long-term budget, investments from the European Regional Development Fund and the Cohesion Fund will help achieve the budgetary aim of at least 25% of EU spending going towards climate action. Its implementation through programmes covered by cohesion policy

will be monitored (European Commission, 2018e).

The dispersion of regulations on individual EU funds implemented in partnership with member states means that so-called shared management impedes the functioning of programme management bodies. It also discourages entrepreneurs from submitting applications. In response, the Commission has proposed a single set of rules for seven EU funds: the European Regional Development Fund, the Cohesion Fund, the European Social+ Fund, the European Maritime and Fisheries Fund, the Asylum and Migration Fund, the Internal Security Fund and Instrument for Border and Visa Management. A uniform set of rules will facilitate the work of programme’s managers and their beneficiaries. It will also support synergy; for example, between the European Regional Development Fund and the European Social+ Fund in the context of integrated urban development plans for revitalising decaying parts of cities (European Commission, 2018e).

## Chapter 2. Challenges ahead of Europe and CEE

Cohesion policy's five investment priorities reflect the key social, economic and

environmental challenges hampering Central and Eastern Europe's sustainable development.

“Huge challenges await us. It is up to us to shape these challenges. If we want a role to play in the future we have to play it now. It is up to us to ensure that the handwriting of the European Social Model is clearly visible in everything we do. Because Europe is the protective shield for all of us who can call this magnificent continent their home.”

Jean-Claude Juncker, President of the European Commission (2014)

### Economic challenges

#### *The business climate*

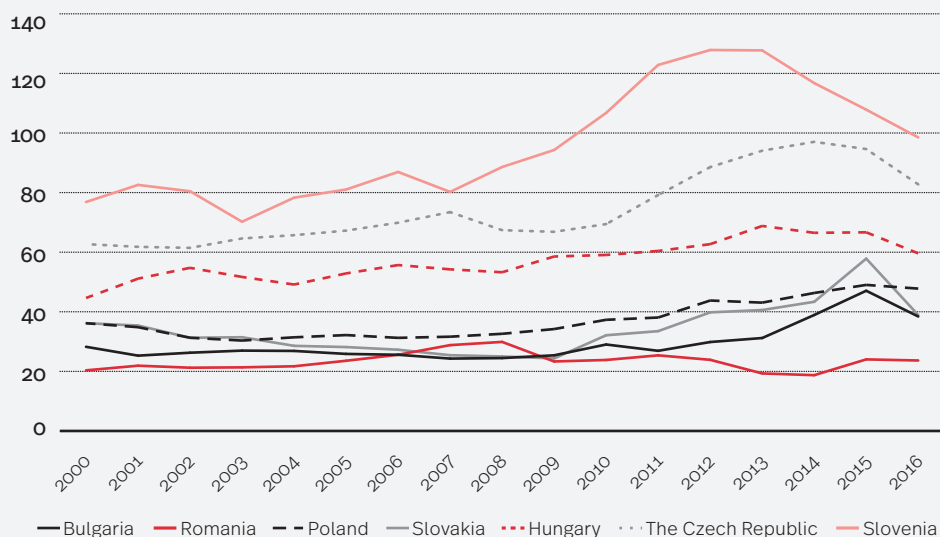
Since the first countries in CEE joined, the EU has experienced two serious crises. The first began in Q1 2008, with a recession that lasted five quarters. The crisis was accompanied by the breakdown of consumption, reflected in the consumer mood indicator, which fell by over 60 points. The second was the Eurozone debt crisis, which lasted until Q3 2011. The Baltic States (not including Poland) were most hit by the crisis of 2008; real GDP fell by more than 20%.

Analysing the behaviour of the cyclical component of real GDP indicates that, in some countries, the phase of economic downturn is already beginning, and the strongest upward trend concerns fluctuations in real GDP in Poland. The signs of a collapse in consumption, accompanied by a fall in production (in all the CEE countries, the business climate index (ICI) was below the EU-28 average in 2017-2018), as well as deteriorating consumer sentiment, point to the approaching recession in the EU-28 and CEE (Adamowicz et al., 2018).

#### *A knowledge-based economy*

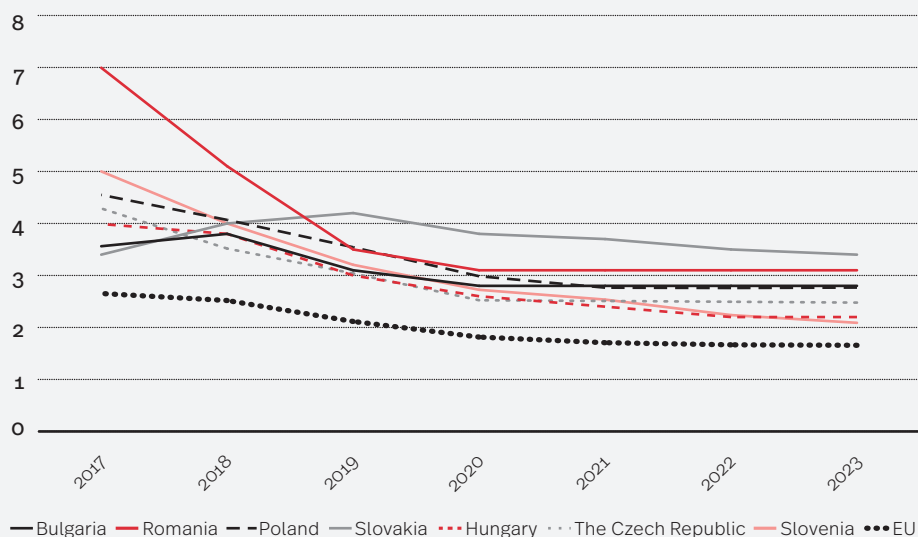
One of the three priorities of the “Europe 2020” strategy is economic development based on knowledge and innovation. Yet spending on R&D in the CEE countries is significantly below the target level. The spending on research per capita is only increasing slightly. Only the Czech Republic and Slovenia have significantly intensified spending on R&D, though even they did not reach the EU-28 average in 2016. The minimal progress in the CEE countries calls into question the likelihood of the “Europe 2020” strategy's aims being achieved and of the countries matching other member states. In 2010-2017, the CEE countries strongly increased the percentage of people with higher education among people aged 30-34. Lithuania (14.2 pp) and Poland (10.2 pp) were the most successful, while Bulgaria (4.8 pp) and Hungary (6 pp) improved the least. Focusing education policy on this area allowed the aim of the “Europe 2020” strategy to be achieved and exceeded. Bulgaria is the only country in which this target may be unreachable.

▼ **Chart 29.** Pace of convergence in spending on R&D in CEE countries compared to the EU-28 average



Source: prepared by the authors based on: Eurostat data.

▼ **Chart 30.** Forecast GDP growth in fixed prices in CEE in 2017-2023 (%)



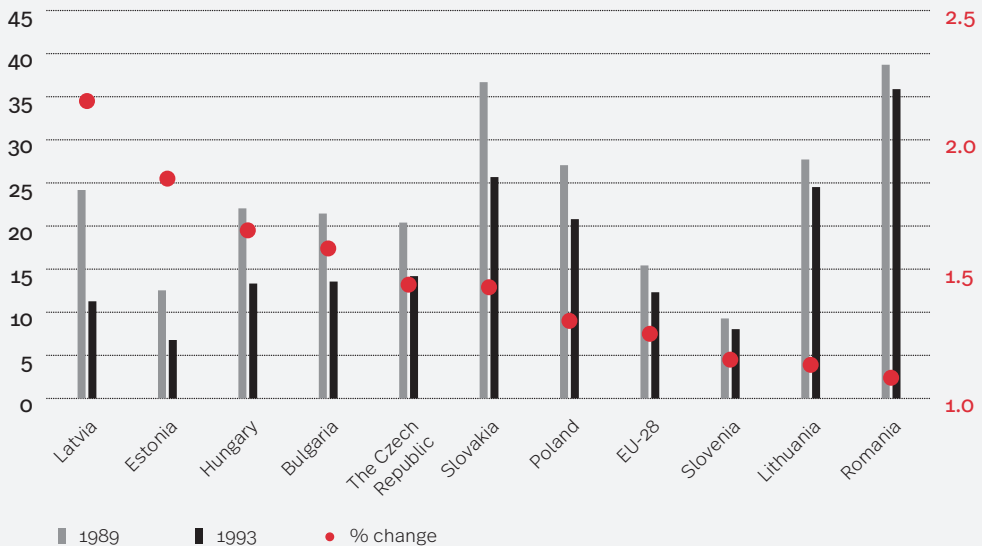
Source: prepared by the authors based on: IMF data.

### The VAT gap

The tax on goods and services is the state's key source of revenue, so its size and stability is incredibly important. In almost all the countries in CEE, the VAT gap was above the EU average. In the EU-11, the loss of potential revenue from VAT was around EUR 24.6 bn in 2016 and amounted to 17.9% of the loss of revenue in the entire EU in 2015. Analysing Chart 31, one might notice that although the CEE countries

are similar in terms of economic structure and at a similar level of economic development, they vary significantly in terms of VAT collection. Between 2012 and 2016, Latvia and Estonia reduced the VAT gap the most effectively and Romania the least. The variation results from differences in institutions' effectiveness, support from functional IT tools and how complicated tax rules are.

Chart 31. VAT gap in EU-11 countries in 2012-2016 (% of tax revenue)



Source: CASE (2018).

### The housing market

Almost all countries in CEE are implementing a particular housing market model, which differs from that in western or southern Europe. It is characterised by the low commodification of housing. Inhabitants of EU-11 countries treat houses as a family good, rather than as a commodity or a financial asset. The result is a low

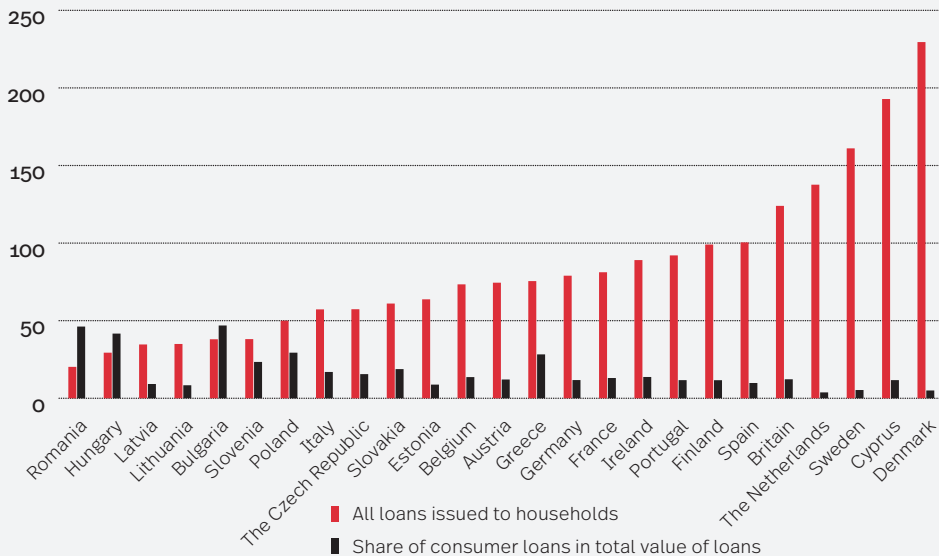
supply of rental housing, and rent for what is available part is very high, which is reflected in the much higher rent-to-income ratio in the region than in old member states. Moreover, there is a low supply of social housing in the EU-11 countries, accompanied by a poorly developed rental market with a high percentage of young adults living with their parents (Czerniak, 2018).

### Household debt

Households in CEE are characterised by a different structure of debt than in Western European countries. Household credit obligations are not only lower than in the European leader, Denmark, where mortgages are used to fund small business operations, but also compared to low-debt countries like Germany, Italy or Austria. Czechs, Slovaks and Estonians have

the highest debt in the region due to mortgages, while households in Bulgaria, Romania and Hungary mainly take out consumer loans. This probably results from poverty. Such an irrational way of incurring liabilities creates the risk of falling into a “debt spiral”. Polish households are between these two types of borrowing (Lissowska, 2018).

Chart 32. Loans as a percentage of disposable income (%)



Source: prepared by the authors based on: Lissowska (2018).

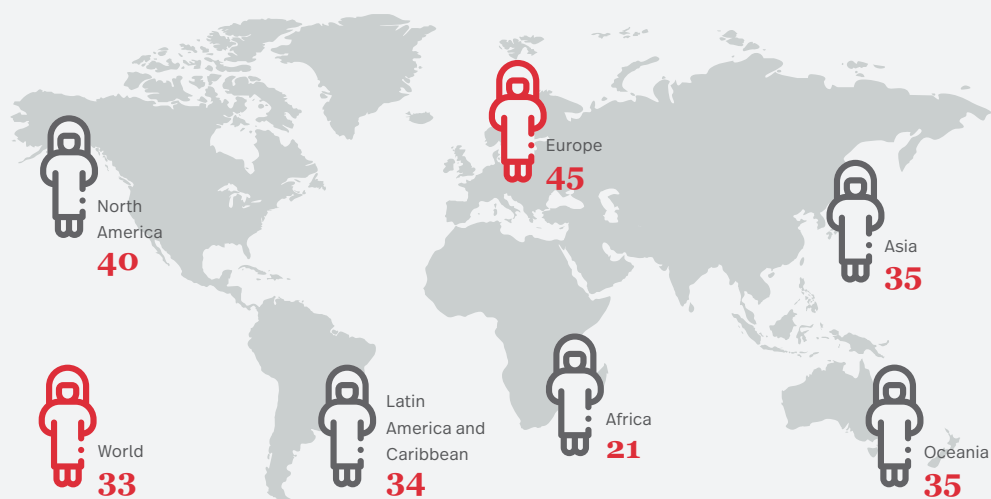
### Social challenges

By 2060, Europeans will account for less than 5% of the world's inhabitants. No member state's population will make up more than 1% of them. The situation is particularly serious in Lithuania where, based on current

assumptions, it is forecast that the population will fall by over a third by 2080. In Slovakia, Greece, Portugal and Bulgaria, it will decline by around 30% (European Commission, 2017).

### Infographic 7. Median age by region

By 2030, Europeans will be the oldest society globally



Source: European Commission (2017).

### Health in an aging society

Life expectancy has increased significantly. For men, it will rise from 43 years in 1900 to an estimated 82 in 2050. For women, the increase will be from 46 years to an estimated 87. A longer life does not always mean a healthy one: nearly 50 million people in the EU-27 suffer from chronic diseases, which lead to almost half a million premature deaths among people of working age die every year. These deaths could be avoided with improved public health policies and prevention or better healthcare at the right time. European society is also struggling with many new problems, such as stress, depression, obesity, environmental conditions and addiction to technology (European Commission, 2017).

### The social security system

Almost one-third of people over the age of 65 live alone, and almost two-thirds of people over 75 use informal care, mainly provided by their immediate family. Every sixth older person lives in poverty, with older women particularly vulnerable to receiving low pensions due to working fewer years. All these factors will affect social welfare systems' financial stability and thus individual countries' budgetary situation. In the EU-27, it is expected that in 2030 pensions-related spending will increase to 12.4% of GDP, spending on healthcare to 7.7% of GDP, and spending on long-term care to 2.4% of GDP. For every elderly person in 2060, there will be just two of working age, compared to four in 2008. The negative consequences will be mitigated by recent pension reforms aiming

to link retirement age to life expectancy, but the new costs of healthcare will probably be significant anyway (European Commission, 2017).

### *Labour and the quality of work*

In the 1960s, there were two births per woman. The fertility rate in the EU is now 1.58 on average. Declining labour resources also threaten our ability to maintain the current level of economic growth. Even if more people from every generation are willing to work and want to work longer, this is unlikely to compensate for the general decline in population. Legal migration can provide the EU with the skills needed to overcome shortages on the labour market. However, roughly half of the

activities currently performed at work could be automated by 2055. Employees in all age groups will increasingly be forced to adapt their skills to technological change and to constantly improve their qualifications. New types of contracts make it easier to enter the labour market, but increase the risk of market polarization, where there are signs of growing wage inequalities and where low-skilled workers remain in posts that do not require qualifications, with little chance of promotion (European Commission, 2017).

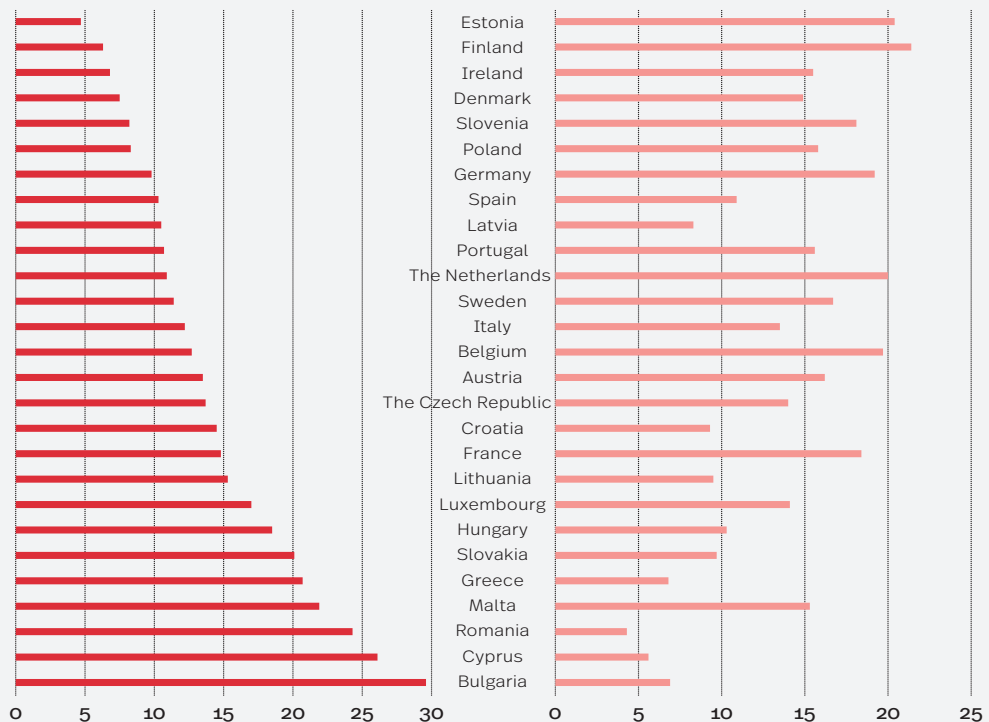
### *Education*

The pace of digitization and economic change means that some of today's jobs and qualifications

#### ✎ Chart 33. 15-year-old pupils' educational achievements

% of 15 year olds who are low achievers in science, reading and maths

% of 15 year olds who are top performers in science, reading and maths



Source: OECD (2018a).



will become obsolete. To meet these challenges, education systems need to be modernised. Many pupils starting primary school now will probably work in new professions that do not yet exist. It is especially worrying that around a quarter of adults in Europe struggle with reading and writing or with basic maths, and almost twice as many have insufficient digital skills. Among young people, these

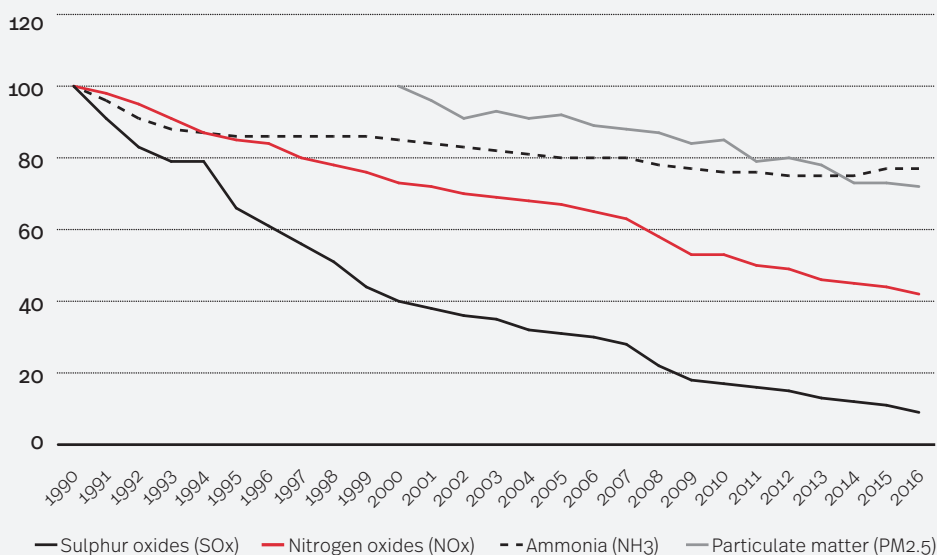
skills are getting weaker and weaker. The latest Programme for International Student Assessment (PISA) results are unambiguous: although there is a high level of education and levelled educational results in some member states, most are not making enough progress in reducing the percentage of low achievers in reading, science and maths (European Commission, 2017).

## Environmental challenges

“Air pollution is causing damage to human health and ecosystems. Large parts of the population do not live in a healthy environment, according to current standards. To get on to a sustainable path, Europe will have to be ambitious and go beyond current legislation.”

Hans Bruyninckx, EEA Executive Director

Chart 34. Air pollution emissions in the EU-28 in 1990-2016 (1990 = 100)



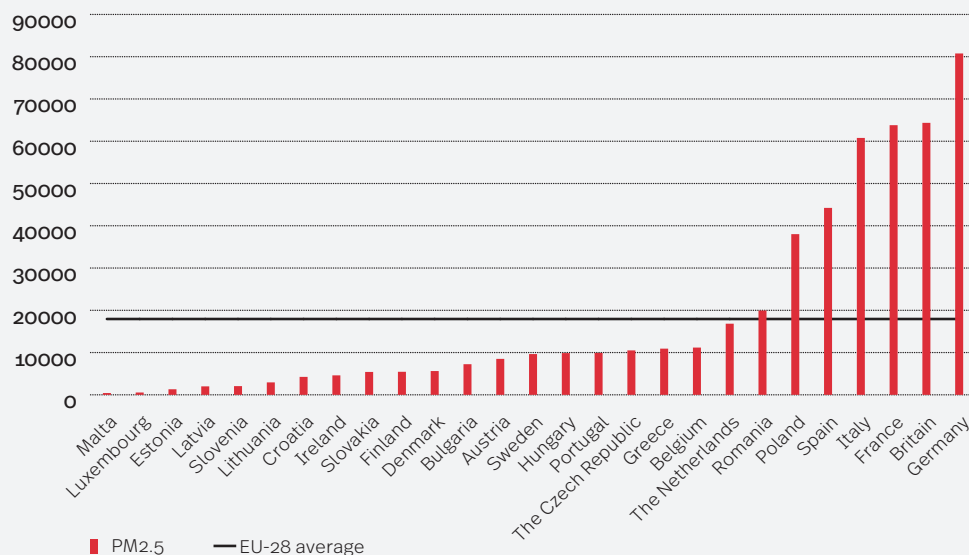
Source: prepared by the authors based on: European Environment Agency data.

### Air pollution

The main source of air pollution in Europe is road transport and furnaces used to heat homes. Although air pollution has declined since 1990 thanks to EU policies and investment, harmful substances are concentrated in the air, especially in CEE. The concentration of air pollutants is still too high, so air quality remains a challenge. A large part of Europe's population, especially in big cities, lives in areas where air quality standards are exceeded: pollution from ozone, nitrogen dioxide and particulate matter

(PM) creates serious health risks. Several countries exceeded one or several emission limits set for 2010 for four important air pollution factors. The situation is worst in Poland, which has 44 of the 50 most polluted cities in Europe (European Environment Agency, 2017). Every year, air pollution kills nearly half a million Europeans, above all in Germany, Britain, France and Italy. Although there are fewer big cities in CEE than in Western Europe, a significant number of people in Romania, Bulgaria and Hungary die prematurely due to air pollution.

Chart 35. Premature deaths due to particulate matter (PM2.5) in 2014



Source: prepared by the authors based on: European Environment Agency data.

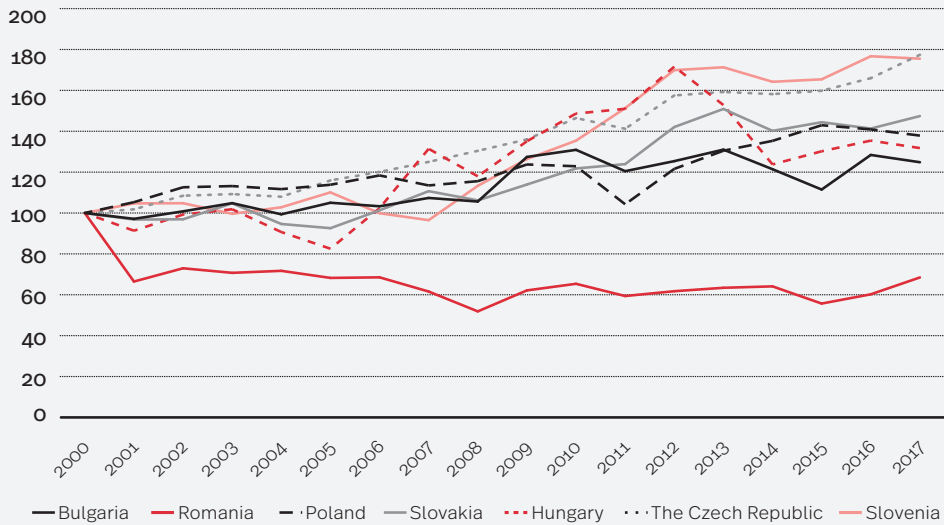
### Waste management

The EU is dependent on importing key raw materials, so the main challenge for waste

management in the years ahead is transitioning to a circular economy. Resource productivity<sup>2</sup> in the EU economy has increased by around 40%

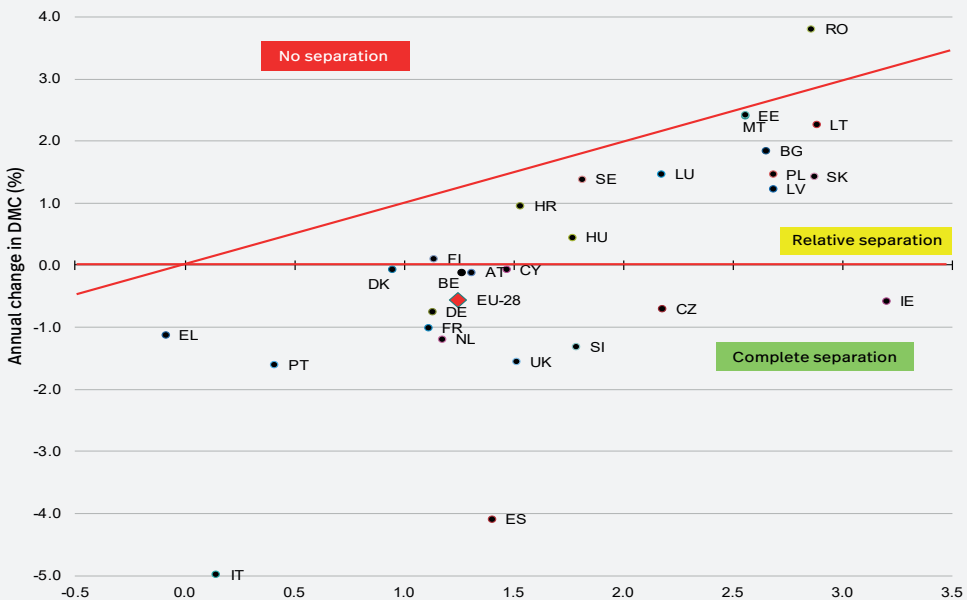
<sup>2</sup> Resource efficiency defines the relationship between economic activity, expressed as GDP, and the consumption of material resources, measured as domestic material consumption (DMC), derived from material flow accounts for the whole economy (Eurostat, 2018b).

▼ **Chart 36.** Domestic material consumption (DMC) as a ratio of EU-28 GDP to domestic consumption of materials (%)



Source: prepared by the authors based on: Eurostat data.

▼ **Chart 37.** Change in DMC and GDP in 2000-2017 (expressed as annual rates of change in %)



Source: prepared by the authors based on: Eurostat data.

since 2000, to EUR 2.20 per kg in 2017. All the countries in CEE, except Romania, improved resource efficiency in 2017 compared to 2000. The challenge remains to capitalise on potential for action on industrial waste, especially from mining and extraction, industrial processing, and producing and supplying energy.

Domestic material consumption (DMC), calculated as the relation of GDP to the domestic consumption of materials, measures the economy's material consumption. The higher the DMC, the fewer materials are used to create

a unit of GDP. Analysing the long-term rate of change in DMC and GDP shows the degree of separation between DMC (environmental pressure) and GDP (economic growth). Chart 37 illustrates the extent to which this was achieved in the EU economy. The diagonal line shows identical rates of change in GDP and DMC. In the countries above this line, DMC growth exceeded GDP growth and the two were not separated. In the countries below it, GDP rose faster than DMC, which means that there was at least relative separation (Eurostat, 2018c).

## Chapter 3. How should the effects of cohesion policy be measured?

Measuring the effects of cohesion policy makes sense if all the dimensions affected are considered. These effects can be measured using macroeconomic indicators, such as spending on R&D, the material deprivation rate or the percentage of people in employment. It is equally important to consider the micro perspective; how investment in cohesion policy directly improves Europeans' quality of life. The impact of cohesion policy on the EU's residents can be measured using well-known indexes, such as the UN Human Development Index, the OECD's Better Life Index, or the World Bank's latest Human Capital Index. The effects of cohesion policy can also be measured using quantitative and qualitative reports with a case study on an investment. However, these cannot be compared with each other due to problems identified by the European Court of Auditors (European Court of Auditors, 2018).

### Projects carried out as part of cohesion policy are still not results-oriented

According to a report on 34 projects from seven programmes in the Czech Republic, France, Italy and Finland, results are still only used as a guide when selecting projects, as the selection criteria rarely focus on quantified result indicators. Although all 34 projects considered the specific aims of operational programmes, the report indicated that the institutions assessing the applications focused on the projects' overall viability and likelihood of success. Auditors suggest that the selection criteria should focus on the projects' fit with the

operational programmes' aims and the provision of quantified result indicators to measure the projects' long-term impact. The report shows that most of the projects were not selected using the ranking procedure, but rather based on the order of applications. As a result, it cannot be guaranteed that the best projects were chosen. The report notes that just a limited number of data had been collected in IT systems by the end of 2016 and that most audits needed to ensure monitoring systems and the reliability and availability of data began in 2017. This means that the Commission still does not have a full overview of the data from monitoring using IT systems. This lack could also cause problems for the Commission's plan to examine the programmes' achievements in 2019 and create a reserve for the amount set aside at the beginning of the period for each programme (European Court of Auditors, 2018).

### The macro perspective

Cohesion policy aims to improve European regions' economic, social and territorial integrity. These aims, set out in the EU Treaty, are a significant expression of solidarity with the EU's poorer regions. Cohesion policy in 2014-2020 is closely linked to the "Europe 2020" strategy to promote smart, sustainable and inclusive growth. The set of indicators from Eurostat's databases, grouped according to the "Europe 2020" strategy's aims, which are used to measure cohesion at the regional level, can be used to track progress in meeting the 2020 targets (Eurostat, 2018a).

Indicator	NUTS
<b>SMART GROWTH</b>	
<b>Research and development</b>	
Expenditure on experimental R&D as a percentage of GDP	2
Patent applications to the European Patent Office (EPO) by priority per year	2
<b>Competitiveness and business environment</b>	
Regional gross domestic product (PPS)	2
Regional gross domestic product in purchasing power standard (PPS) per capita	2
Regional unemployment by gender and age per 1000 inhabitants	2
Regional unemployment by gender	2
Employment in the region by gender and age per 1000 inhabitants	2
Regional employment in the 20-64 age group by gender	2
<b>Education</b>	
Higher education broken down by gender in the 30-34 age group (%)	1
Higher education broken down by gender in the 25-64 age group (%)	2
People leaving education early, by gender (%)	1
<b>SUSTAINABLE GROWTH</b>	
<b>Transport</b>	
Victims of road accidents	2
Freight transport by region of loading	-
<b>Environment</b>	
Population connected to wastewater collection and treatment systems (%)	2
Production and processing of municipal waste (in thousands of tonnes)	2
<b>INCLUSIVE GROWTH</b>	
<b>Social integration, poverty and health</b>	
People at risk of poverty or social exclusion (based on the three sub-indicators below)	2
People living in households with very low work intensity	2
Material deprivation indicator	2
At risk of poverty indicator	2
People at risk of poverty or social exclusion according to the degree of urbanisation (based on the three sub-indicators below)	-
People living in households with very low work intensity according to the degree of urbanisation	-
Material deprivation indicator according to the degree of urbanisation	-
At risk of poverty indicator according to the degree of urbanisation	-
Life expectancy at birth by gender	2
<b>CONTEXT</b>	
Average annual population to calculate regional GDP data	3
Total and land area	3

## The micro perspective

Quality of life is an important category of social statistics. Reports and empirical studies adopt a model, which involves selecting areas of quality of life areas to illustrate it after using measures. The choice of measures depends on the theoretical assumptions (Petelewicz, Drabowicz, 2016). According to J. M. Sirgy, approaches based on the following conceptions can be distinguished (Sirgy, 2011):

In recent years, there has been concern that macroeconomic indicators such as GDP do not provide a full picture of living conditions. Although these fears were already evident in the years of strong economic growth and good economic results that characterized the early 2000s, the financial and economic crisis strengthened them. Resolving these dilemmas is crucial for the credibility and accountability of public policy, but also for the very functioning of democracy.

Amid these discussions on the imperfections of the system of information on the state of society (and the economy), which some scientists say contributed to difficulties in recognising the symptoms of the economic crisis in 2008, then-president of France Nicolas Sarkozy established a Commission for measuring economic efficiency and social progress. The lack of adequate data was one of the reasons officials struggled to prevent the spread of crisis's negative consequences and alleviate its effects. The committee included prominent academics J. Stiglitz, A. Sen and J.P. Fitoussi. The Commission's main tasks included analysing the methods used to assess economic performance and social progress, and proposing new indicators. These indicators were supposed to better reflect social progress and changes in the economic situation, while being more understandable for society. The committee's work resulted in

a report published in 2009 (Petelewicz, Drabowicz, 2016).

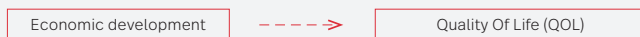
The authors of the report call on the creators of statistical systems to pay less attention to tools for monitoring economic phenomena and put greater emphasis on studying the conditions and quality of life of citizens, as well as ensuring sustainable progress in the context of limited environmental resources. A significant part of the report is devoted to a critical analysis of GDP, treated as an indicator of social welfare and well-being. Although the authors do not propose to abandon this indicator, it is ill-suited for measuring quality of life (Stiglitz, Sen, Fitoussi, 2008). When discussing ways of measuring the quality of life and the conclusions of the report, it is worth citing the indexes currently used for international comparisons. Using them at the regional level could help measure the impact of investments aiming to increase the EU's cohesion (though this approach still has its flaws).

## The Human Development Index

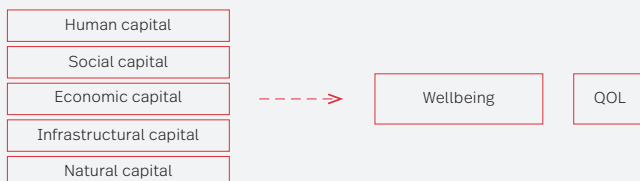
The Human Development Index (HDI) measures average achievement in key dimensions of human development: a long and healthy life, knowledge and a decent standard of living. The HDI is the geometric mean of normalised indicators in each of the three dimensions. It was created to underscore that people and their capabilities, not just economic growth, should be the final criteria when assessing a country's development. The HDI can also be used to question national policy choices, explaining why two countries with the same GNI per capita differ in terms of social development. These contrasts can stimulate debate on the government's priorities (United Nations Development Programme, 2018).

### ▼ Infographic 8. Conceptions of socio-economic development.

- o Conceptions pointing to factors' dominant role

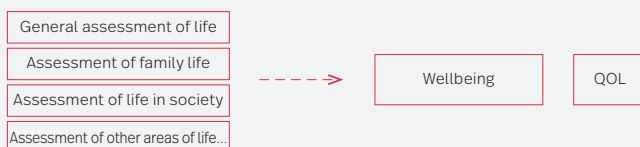


- o Conceptions taking into account the role of various types of capital

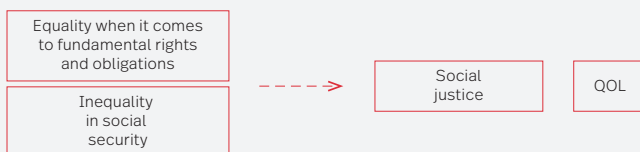


- o Heady's conception of stocks and flows, concepts borrowed from financial analysis were adapted in psychological theory. Stocks are broadly understood living conditions and flows are satisfaction from various areas of life

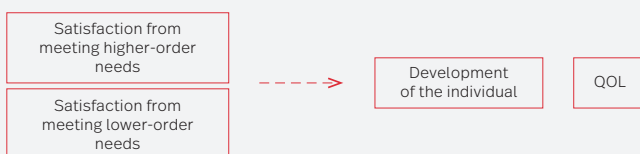
- Personal utility



- Social justice



- Human development – conception based on theory of needs



- Sustainable development



- A. Sen's conception



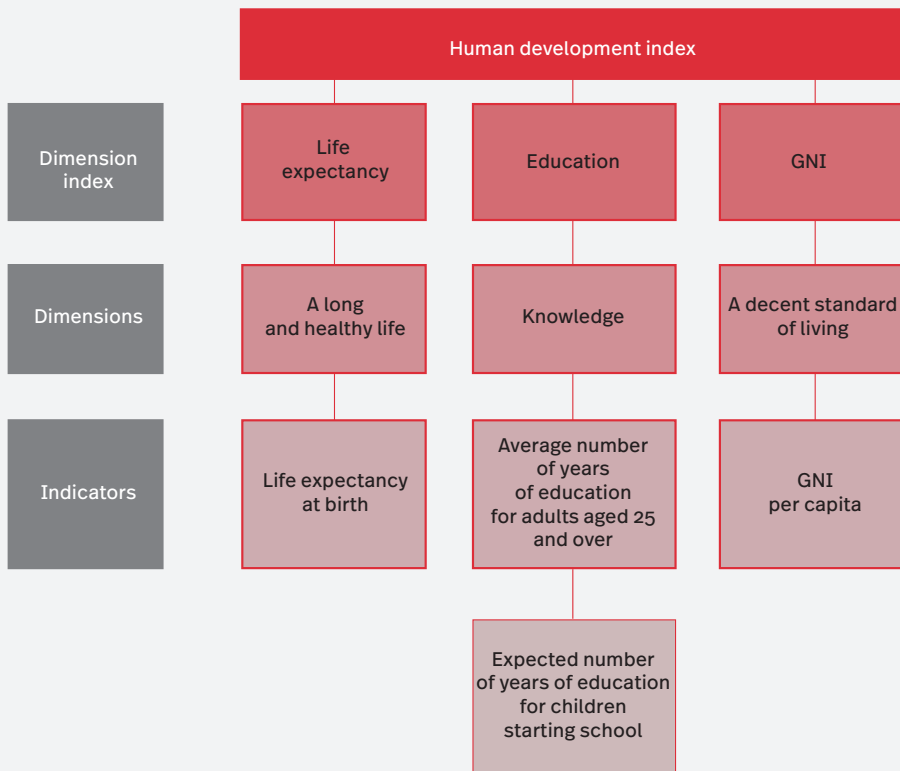
Source: Petelewicz, Drabowicz (2016).



The health dimension is assessed based on average life expectancy at birth, while education is measured by the average number of years of education for adults aged 25 and over and the expected years of education for children starting school. The standard of living is measured by GNI per capita. The HDI uses an income logarithm to reflect the declining importance of

income as GNI rises. The indicators for the three dimensions are aggregated into a composite index using a geometric mean. The HDI simplifies and captures just part of what creates human development; it does not consider inequality, poverty, people's safety, their social position, and so on.

#### ➤ Infographic 9. The HDI indicator



Source: based on the following diagram: <http://hdr.undp.org/en/content/human-development-index-hdi> [accessed: 28.02.2019].

#### *The Better Life Index*

The Better Life Index enables well-being between countries to be compared based on data

from eleven areas that the OECD has identified as necessary for a good life. It therefore spans many more areas than economic statistics, especially

» Infographic 10. The Better Life Index



Source: OECD (2018b).

GDP. For many years, focusing on the citizens' well-being and social progress, the OECD observed not only the economic system, but also people's and households' varied experiences and living conditions. Measuring well-being and progress one of the OECD's priorities, as part of its Better Life Initiative (OECD, 2018).

Over 100,000 people worldwide who were surveyed for the Better Life Index shared their opinions on what contributes to a better life. It helps determine which aspects of well-being are most highly rated and in which areas.

### *The Human Capital Index*

The Human Capital Index (HCI) measures the next generation's human capital. It determines the quantitative contribution of health and

education to the next generation of employees' productivity. Countries can use it to assess how much income they will lose due to gaps in human capital and how much faster they can turn these losses into gains if they act immediately.

The index summarises the human capital that a child born today can reach at the age of 18, considering health and education. The index takes the value of 1 if the child can expect full health and to make the most of education. Country's results reflect their distance from full education and full health. If it reaches 0.70 in the Human Capital Index, it means that the future earning potential of children born today will be 30% lower than it would be with full education and health. The index can be directly linked to future income scenarios for both countries and individuals.

#### ➤ Infographic 11. The Human Capital Index



#### **Survival**

**Will kids born today, survive to school age?**

How many children survive fewer than 5 years

- Under-5 survival rate



#### **School**

**How much school will they complete and how much will they learn?**

Adaptation to quality years of expected education

- Expected years of education by 18 years old
- Harmonized student test scores

**Earnings per additional year of schooling (returns to school)**



#### **Health**

**How healthy will children leaving school be? Will they be ready for further study and/or work?**

Population's general of health

- **Not stunted prevalence**
- Adult survival rate

**Earnings per additional unit of health (returns to health)**

## Chapter 4. Recommendations

As a full member of the EU, Poland wants to be as involved as possible in the forging of a constructive compromise on cohesion policy. It will be easier to reach an agreement if three dimensions are considered: reliable measurement, long-term perspective and adequate funds.

### Reliable measurement

1. Reliable and comparable data
2. Using the methodology of quality of life indexes
3. Establishing a European Institute for Evaluating Cohesion Policy

### Long-term perspective

1. Higher contributions for cohesion social
2. Quality of life depends on objective conditions and people's capabilities
3. Considering the long-term prospects of EU enlargement in the budget

### Adequate funds

1. Accounting for the causes of a potential cut in funds
2. Countering the consequences of Brexit
3. Including the multiplier effect in the future budget

Constructive compromise



## RELIABLE MEASUREMENT

1. **Reliable and comparable data.** A clear methodology for collecting and presenting data needs to be agreed on, so that institutions' reports are transparent, the results comparable and the calculations do not raise doubts about the reliability of presentation. An IT platform with a raw database and synthetic indicators could be developed.
2. **Using the methodology of quality of life indexes.** Indexes at the regional level could provide an important argument when making decisions on the allocation of funds from the budget for cohesion policy, especially since sustainable development is not always simply a reflection of economic growth, measured using GDP. A helpful indicator of development could be a Regional HDI at the NUTS 3 level.
3. **Establishing a European Institute for Evaluating Social Policy.** Its tasks would include preparing a method for analysing the benefits of achieving cohesion policy's aims, along with an index measuring the effectiveness of cohesion policy, which would clearly set out the benefits of funding a given project. It would also assess how well countries manage funds.

## LONG-TERM PERSPECTIVE

1. **Higher contributions for cohesion policy.** The priorities in the new financial framework aim to boost global competitiveness. The goal is to strengthen member states so that they can make appropriate investments and leaving them room for manoeuvre. To achieve the development aims, member states need to contribute more to the EU budget.
2. **Quality of life depends on objective conditions and people's capabilities.** Since EU cohesion policy seeks to foster the individual and collective wellbeing of Europe's inhabitants, more money should do towards efforts relating to health, education and environmental conditions. Reliable measures of social ties should be developed.
3. **Considering the long-term prospects of EU enlargement in the budget.** This means making the allocation of funds dependent on regions' role in further EU enlargement. From this perspective, Central and Eastern Europe must be sufficiently developed to be able to participate in, say, the process of integrating countries in the Western Balkans.

## ADEQUATE FUNDS

1. **Accounting for the causes of a potential cut in funds.** The algorithm should account for all the EU's strategic priorities for the years ahead, but remain immune to unjustified arguments. If the cut is justified by increased pressure to spend the budget on other purposes, such as defence spending, how countries using the cohesion policy budget spend money on defence should be considered. The extent to which the EU's strategic objectives are part of cohesion policy or fall under other programmes must be verified, too.
2. **Including the multiplier effect in the future budget.** These are the benefits that net payers reap from contributing the EU budget. The multiplier effect is a useful measure of the economic benefits from each country, which shows that cohesion policy is less about altruism and more about the development of the whole EU.
3. **Countering the consequences of Brexit.** When allocating funds to a given region, the negative impact of Brexit on individual regions should be considered.

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# The Polish Economic Institute

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