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## Cohesion Policy 2014-2020

Cohesion policy aims at strengthening economic and social cohesion within the European Union by reducing the gap in the level of development between different regions. The proper financial management of EU funds is important to avoid fraud and illegitimate spending. Yet more important is the quality of the funded projects.

Cohesion Policy is more complex than that and cannot be reduced to financial allocations. Many elements influence socioeconomic development and performance. To optimize cohesion policy we must ensure that it fits in the general environment – and we must do this at European, national and regional level. Effective and sustainable development is defined in practice. So while clearly the integrated approach requires more effort in terms of planning and implementation as regards time and workload, the result is often that more well-grounded plans can be produced with increased ownership of the objectives of the project.

Public spending must be accompanied by steps to strengthen the efficiency and targeting of these outlays. The future of this policy, will largely depend on what we do with the current programmes as well: we have to be able to demonstrate that we can spend well, effectively and efficiently and in time the resources we have now.

Cohesion is a core European policy that aims to promote long-term sustainable development by reducing European regional disparities. EU Cohesion policy focused on bridging regional imbalances that result from the integration process by promoting economic development and social cohesion.

The environment in which Cohesion Policy operates has become more difficult.

Significant disparities between EU regions still exist and have even increased in the aftermath of the most recent waves of enlargement. The geographical distribution of GDP underlines these differences, characterized by significant gaps between the Union's Western and Central and East European Member States.

We are experiencing one of the most difficult economic and financial crises of the last 50 years. The economic and financial contexts are very challenging. There is now more than ever increased pressure on public finances but also on the general mood in Europe. We face a lot of skepticism and defeatism.

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The economic crisis and the deepening debt crisis have shown that “business as usual” is not an option in Europe. The debate on the future of one of the biggest items of the EU budget cannot be seen in isolation from the broader economic environment and EU's growth agenda: all EU policies need to contribute in conjunction to deliver growth in the context of a rapidly changing economic climate and weakening markets' confidence.

In view of this, it is quite clear that we not only need to keep cohesion policy at the centre of our European project, but also that we need to reinforce it by making it better and smarter.

The resources are limited and should be used in the best way: Europe needs an investment policy which operates everywhere, is close to the citizens and their concerns, adapts EU priorities to national, regional and local needs and translates EU objectives into concrete action.

Cohesion Policy in general is deemed to be a unique instrument which allows for the reconciliation of

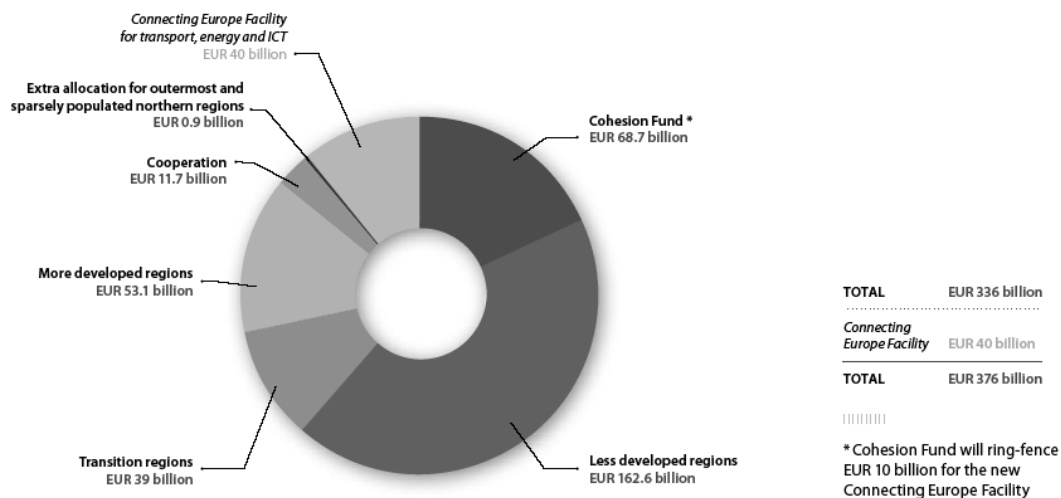
- different types of – sectoral – objectives and aspects of development (e.g. social, environmental, infrastructural, economic aspects etc.),
- different levels of governance (at the EU, Member State, region or local level).

Through facilitating accelerated and sustainable development at local, regional and member state level it brings into effect the basic principle of solidarity. At the same time it catalyzes European competitiveness as well as growth and job creation. It serves the practical accomplishment of the Europe 2020 strategy, the balanced and sustainable development of the member states and the European Union as a whole.

The efforts of overcoming the financial and economic crisis should be effectively supported by the broader perspectives underpinning predictability through the Multi-annual Financial Framework as well as the long term planning and practical implementation in the frame of the Cohesion policy. In the time of budgetary constraints the financial envelopes for Cohesion and Structural funds (CSF) agreed for each member state in EU multi-annual financial frameworks catalyze investments, thus acquiring significant importance for the success of growth and job creation from local till European level.

In June 2011, the Commission tabled its proposal for the Multi-annual Financial Framework 2014-2020. In this proposal, 376 billion euro is allocated to Cohesion policy instruments, including the new Connecting Europe Facility. This represents one third of the EU budget.

## BUDGET FOR COHESION POLICY POST-2013 (2011 PRICES)

*\*European Commission*

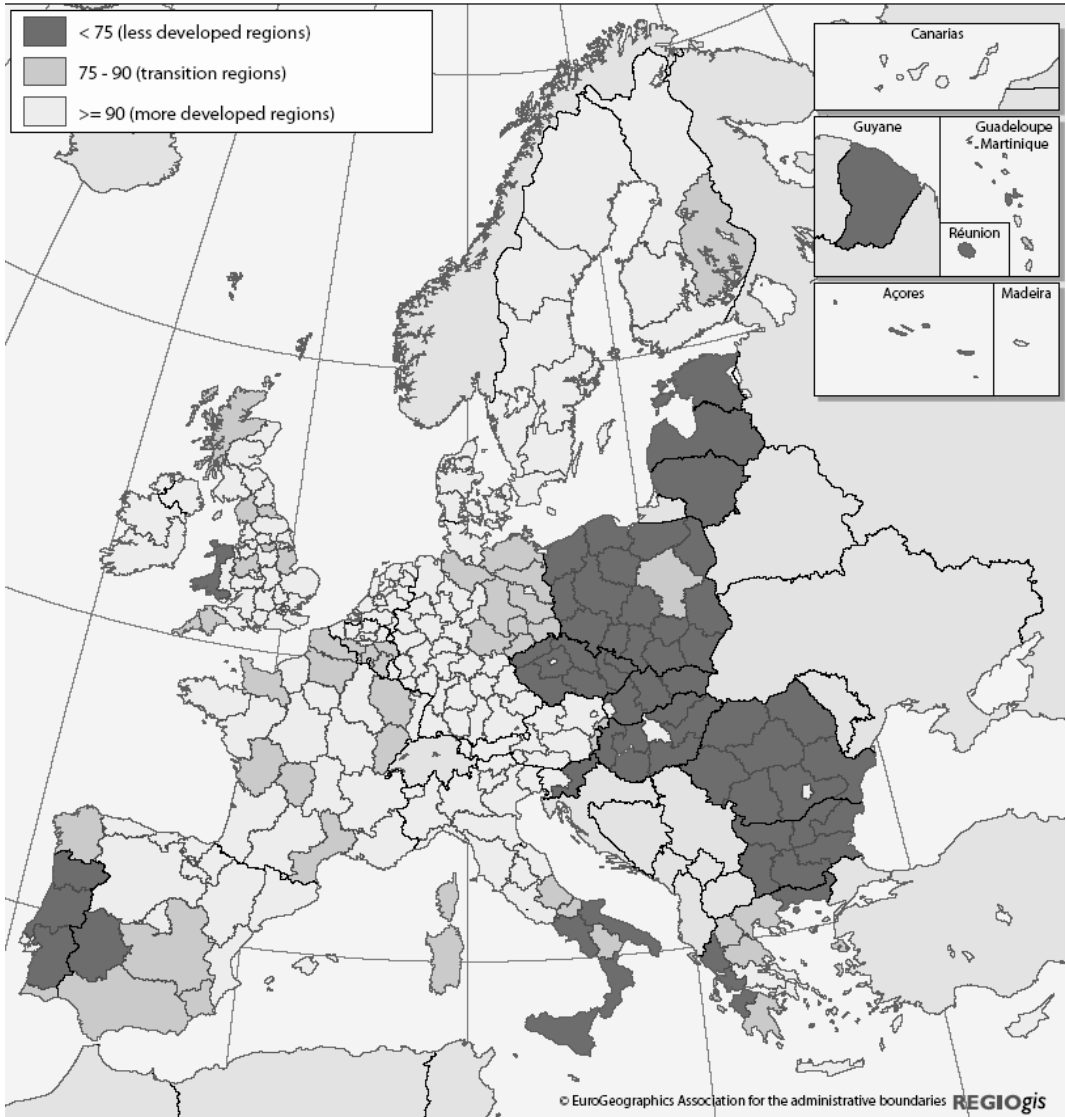
Cohesion policy has to remain a strong, integrated development tool with a similar level of financing as in the current financial period. Cohesion policy is not outdated and does not mean wasted money. Instead, it has a significant importance in implementing the goals of the Europe 2020 Strategy. At the same time, we also have to keep the original purpose: reducing regional disparities; there is no external competitiveness without internal cohesion.

According to the new proposals there will be three categories of regions within each objective in the next programming period. 71% of cohesion resources will go to less developed regions – we must continue to support these regions to modernize their economies, to provide a good framework for business and growth.

The Commission proposes to allocate 12% of the funding to support regions in economic transition. Concerning the new categories of regions, the proposed allocations shift funds from the poorer regions towards the richer ones: less developed regions will lose financial resources. While acknowledging the need to find a solution to the problem of phasing out regions, cohesion resources should be concentrated on the least developed areas.

## Eligibility simulation 2014-2020

*GDP/head (PPS), index EU27=100*



I would like to draw the attention to the fact that the new proposals fix the capping rates for cohesion allocations at 2.5% of GDP, and according to the Commission methodology the forecasted GDP growth for Hungary is very low; thus, the Hungarian cohesion envelope for the 2014-2020 period would decrease by 20% compared to the current period's amount.

On 6 October 2011 the European Commission presented a legislative package for the Cohesion Policy for 2014-2020 composed of the following proposals for regulations:

1. General Regulation laying down Common provisions on the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF);
2. Regulation concerning the European Regional Development Fund (ERDF);
3. Regulation concerning the European Social Fund (ESF);
4. Regulation concerning the Cohesion Fund;
5. Regulation concerning the European Territorial Cooperation (ETC);
6. Regulation concerning the European Grouping of Territorial Cooperation (EGTC).

The package covers also proposals for regulations linked to the Cohesion Policy: Regulation concerning European Globalisation Adjustment Fund (EGF), Regulation concerning the European Union Programme for Social Change and Innovation and a Communication on European Union Solidarity Fund.

The Commission proposed a number of important changes to the way cohesion policy is designed and implemented, namely:

- concentrating on the Europe 2020 Strategy's priorities of smart, sustainable and inclusive growth;
- rewarding performance;
- supporting integrated programming;
- focusing on results – monitoring progress towards agreed objectives;
- reinforcing territorial cohesion; and
- simplifying delivery.

The first part of the legislation lays down a series of common provisions for the five Funds with structural aims covered by the Commission's Common Strategic Framework (ERDF, ESF, Cohesion Fund, EAFRD, and EMFF). It outlines the common elements on strategic planning and programming; the thematic objectives linked to Europe 2020, which will be the basis for the Funds; and provisions on the Common Strategic Framework and on the Partnership Contracts with each Member State. Common rules also cover eligibility, financial instruments, and management and control principles.

The second part sets out specific provisions for the ERDF, ESF, and Cohesion Fund. These relate to the mission and goals of cohesion policy, the financial framework, specific programming and reporting arrangements, major projects and joint action plans. It also sets out the detailed management and control requirements under cohesion policy and the specific arrangements for financial management. The fund-specific regulations include provisions specific to each Fund (ERDF, ESF and the Cohesion Fund), in particular regarding the scope of the Funds, the investment priorities, and the indicators.

The Commission shows strong efforts to carry out its performance oriented reforms. These changes aim to enhance the delivery of European added value by strengthening governance compliance and “Value for Money” approach by reinforcing strategic programming, thematic concentration, conditionality and incentives. The proposals aim the concentration of resources on Europe 2020 objectives and achieving greater simplification for beneficiaries. Although the draft Regulations essentially retains the framework that was established in the previous programming periods, it is notable a further emphasis on member states’ responsibilities, in particular concerning systems set-up and financial management.

The actual regulatory set-up is deferred to a later stage, through adoption by the Commission of delegated acts under article 290 TFEU. It should be observed that these acts, meant to cover non-essential elements of EU legislation, actually deal with the founding elements of the future Cohesion scheme<sup>2</sup>. It will therefore be key in ensuring that those acts comply fully with the objectives laid down by the General Regulation and secure the necessary legal certainty.

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<sup>2</sup> Such as the adoption of a code of conduct on the objectives and criteria to support the implementation of partnership; the adoption of a Common Strategic Framework; the adoption of additional rules on the allocation of the growth and competitiveness reserve; the definition of the area and population covered by the local development strategies; the adoption of detailed rules on financial instruments (ex ante assessment, eligibility of expenses, types of activities not supported, combination of support, transfer and management of assets, payment requests, and capitalisation of annual instalments); the definition of the flat rate for revenue generating operations; the responsibilities of member states concerning the procedure for reporting irregularities and recovery of sums unduly paid; the model of management declaration of assurance on the functioning of the management and control system; the conditions of national audits; the accreditation criteria for managing authorities and certifying authorities; the identification of commonly accepted data carriers; the level of financial correction to be applied; the amendment of annexes and the specific measures necessary for the facilitation of transition from Regulation (EC) No 1083/2006; the amendment of Annexes I (method for establishing the performance framework) and IV (ex-ante conditionalities).

## Enhancing the European added value of Cohesion policy

Expenditure programmes which do not add European value are by definition unlikely to be an effective and efficient use of the EU taxpayer's money.<sup>3</sup> But the concept of European added value should be articulated in a suitable political declaration or in EU legislation in order to provide guidance to the EU's political authorities to be used when choosing expenditure priorities.<sup>4</sup> A favorable opportunity is to do so when putting in place the legal framework for the 2014-20 period.

A fundamental pre-requisite of the EU added value of EU spending is that it must offer clear and visible benefits for the EU and for its citizens which could not be achieved by spending only at national, regional or local level, but could rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.<sup>5</sup>

It is important recasting expenditure programmes in terms of acceptable outputs; with programmes based on a set of concrete objectives, and disbursements linked to the achievement of results.<sup>6</sup> One of the Commission's objectives underlying its 2010 proposal for amendment of the Financial regulation<sup>7</sup> is switching the regime of grants from a real-cost based management (inputs) towards a performance-based scheme (outputs). The Cohesion financial assistance remains fundamentally an input-based scheme. However, the Cohesion draft Regulations are a first important move towards a performance oriented scheme, in particular with the introduction of a performance reserve and of Joint Action Plans linked to results achieved.

Additionality is set to be one of the long standing principles driving the functioning of Cohesion policy. It requires that EU funding should be added to equivalent expenditure by a member state. The principle is confirmed by the general draft Regulation (Article 86) as a way to ensure a genuine economic impact.

In its current form, the additionality principle risks making of spending an objective in itself. This is not a sufficient condition for economic growth. Moreover, in times where Cohesion spending is directed towards achieving defined results, the additionality principle should be linked to the concept of European added value. Additionality should therefore be ensured first and foremost by the increased value of EU spending when compared to the similar national one.

To the application of financial corrections in case of non respect of the additionality principle: it seems inconsistent to reduce further the funds available to Cohesion if the policy aim is precisely to facilitate a quicker narrowing of regional disparities through additional resources for growth and employment. Also, cancelling all or part

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<sup>3</sup> European Court of Auditors, Budget review paper, par. 7.

<sup>4</sup> European Court of Auditors, Opinion No 1/2010, par. 18

<sup>5</sup> European Court of Auditors, Budget review paper, par. 8.

<sup>6</sup> European Court of Auditors, Budget review paper, par. 24.

<sup>7</sup> European Commission, COM(2010) 260, point 4.

of the EU contribution to the member state concerned would represent a unilateral modification of the Partnership contracts setting out the commitments between the national and regional levels and the Commission. Moreover, this would take place at a stage when most of the programmes are expected to be closed.

## **Reinforcing strategic programming**

In order to maximise the impact of the policy in delivering EU priorities, the Commission proposes to reinforce the strategic programming process. This involves the introduction of the Common Strategic Framework, Partnership Contracts, and a menu of thematic objectives in line with the Europe 2020 strategy and its integrated guidelines.

The preparation of the new generation of programmes will be based on a Common Strategic Framework (CSF) at EU level and 27 Partnership Contracts at national level.

The CSF is a key element of the strategic programming process since it would ensure a coordinated response of EU policies and funding instruments. It will shift focus from drawing demarcation lines to establishing complementarities.

The CSF has two functions. First, it should provide guidance on how to ensure that the different sources of EU funding can be combined most effectively to maximise the impact towards our common objectives. This is necessary not only for the structural instruments, but also other EU policies such as Horizon 2020 or the Connecting Europe Facility.

Second, and most importantly, the CSF shall provide Member States and regions with guidance to design integrated territorial approaches which respond to the challenges that our territories face: how to develop truly territorial strategies, how the different funds could better interact at regional and other territorial objectives to contribute to those strategies.

The Partnership Contract is the second element of the programming system. Partnership Contracts, agreed at the outset between the Commission and Member States will set out the overall contribution, at national level, to the thematic objectives and the commitments to concrete actions to deliver Europe 2020 objectives.

Concerns have been expressed on how the Contract would be adapted to different institutional contexts, how it would implement the integrated territorial approach and how Council recommendations issued in the context of the European semester would be taken into account.

The Contract should provide an overview and ensure coherence of commitments of partners at national and regional level to delivering common objectives. It is clear however that the overall economic context will determine more than in the past the design and the content of the Contract. When the fiscal space is narrow and cohesion funding represents in many Member States more than 50% of their investment capacity, there is an obvious need to ensure that these resources also contribute to address the bottlenecks and gaps identified in the country-specific recommendations issued by the Council. Yet, while the Council recommendations are essential to define the overall strategy, they must be addressed in the context of already existing national instruments as well as national and regional needs and strategies. The Partnership Contract is therefore a key mechanism for the territorialisation of our common European targets and objectives.

It could be an improvement the identification in the Common Strategic Framework of coordination mechanisms among Cohesion funds and other EU policies and instruments. Consistency would plead for identifying also in the Partnership Contract the different funding sources envisaged. The Contract would set targets at national level per Fund. However it is a question how could those targets which are the result of the cooperation between various Funds be handled.

For the sake of customized, integrated solutions, allocations and shares from different Funds should only be determined after an analysis of Member State and regional needs. It is favorable that there is an intention to coordinate better European policies and to align programmes better with territorial specificities or manage territorial needs in an integrated manner.

### **Increasing resource concentration**

Reasonable concentration of expenditure is *prima facie* likely to support the objective of adding value.<sup>8</sup> This in view of building up a critical mass and make a tangible impact of EU interventions.

According to the drafts of the regulation (article 9 of the draft general Regulation) public investment should be aimed more than ever at a limited number of growth-enhancing investment priorities closely linked to Europe 2020. It is the so called thematic concentration. Thematic concentration seems to be one of the key elements of the new policy.

The drafts focus on Europe 2020 targets via a thematic menu of 11 priorities.

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<sup>8</sup> European Court of Auditors, Budget review paper, par. 8.

A menu of thematic objectives

- Research & innovation
- Information and communication technologies (ICT)
- Competitiveness of Small and Medium-sized Enterprises (SMEs)
- Shift towards a low-carbon economy
- Climate change adaptation & risk prevention and management
- Environmental protection & resource efficiency
- Sustainable transport & removing bottlenecks in key network infrastructures
- Employment & supporting labour mobility
- Social inclusion & combating poverty
- Education, skills & lifelong learning
- Institutional capacity building & efficient public administrations


They propose to concentrate resources on areas: innovation, energy efficiency, renewable energies, and competitiveness of SMEs. And they propose to leave some margins to finance other priorities. This is not a list of expenditures, but of important policy domains where action is needed. The precise combination of investments is a matter for programmes to define.

The thematic objectives are to be translated into specific priorities for the different funds. Out of these thematic objectives, the Commission proposes to focus the ERDF intervention on three of them<sup>9</sup>, in particular for more developed and transition regions.

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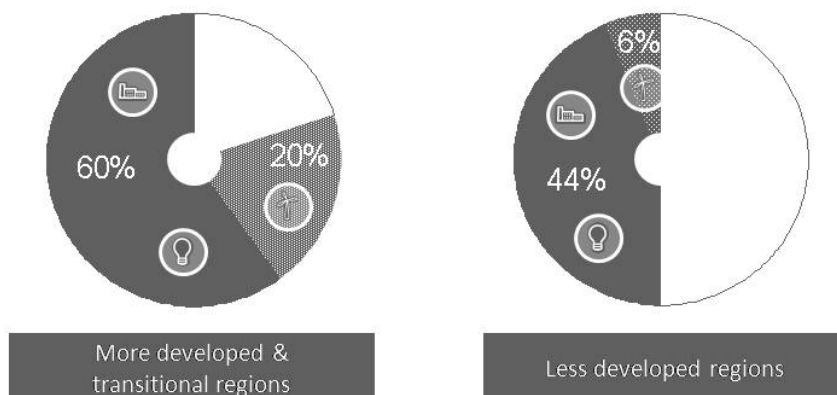
<sup>9</sup> Strengthening research, technological development and innovation; Enhancing the competitiveness of small and medium-sized enterprises; Supporting the shift towards a low-carbon economy in all sectors.

## Concentration of ERDF investments

 Energy efficiency & renewable energy

 Research & innovation

 Competitiveness of SMEs



*\*European Commission*

Four 'thematic objectives' are proposed for the ESF.<sup>10</sup>

The basis for such concentration on some thematic objectives is however not stated explicitly and it is actually set in anticipation of the elaboration of the Common Strategic Framework and the Partnership contracts which should provide an indication of the priorities and the needs at EU, national and regional level. Clarity in this respect would be necessary due (i) to the high-profile status of the other specific priorities for which concentration is not deemed necessary<sup>11</sup> and (ii) to the fact that, as a consequence, it will be difficult to achieve the necessary critical mass for those priorities.

Further concentration is sought for the ESF by limiting the number of investment priorities (Article 4(3) of the ESF draft regulation). However, the same does not apply to the ERDF which could then intervene in each of the 32 investment priorities

<sup>10</sup> Promoting employment and supporting labour mobility; Investing in education, skills and lifelong learning; Promoting social inclusion and combating poverty; Enhancing institutional capacity and an efficient public administration.

<sup>11</sup> Enhancing access to, and use and quality of, information and communication technologies; Promoting climate change adaptation, risk prevention and management; Protecting the environment and promoting resource efficiency; Promoting sustainable transport and removing bottlenecks in key network infrastructures.

foreseen. The reasons which could prevent further concentration for the ERDF should be explained.<sup>12</sup>

The key indicator for determining the amount of EU funds which could be allocated by the regions to thematic objectives is their GDP per-capita ranking. Using data mostly related to the pre-current economic and financial crisis may not be the best basis to take such a decision.

Also, a GDP per-capita ranking does not necessarily provide a demonstration of regions' needs in specific sectors which, as indicated above, would be identified at a later stage in the Partnership contracts.

It is acceptable to concentrate EU funding on well specified objectives. On the other hand ring fencing will create problems in regions where other investment priorities and combinations would be necessary. I think that for the sake of customized, integrated solutions, allocations and shares from different Funds should only be determined after an analysis of Member State and regional needs.

For this reason and also for increasing flexibility in its implementation, it should be considered to set for thematic objectives ranges of possible EU support (with upper and lower boundaries for the rate of EU co-financing rather than a fixed one). This aspect could also be linked with the way in which the performance reserve is to be used.

According to the experiences of the past programme cycles, any kind of regulation that limits multi-funding is highly problematic in case of delivering integrated development. It is especially the case with the programmes that follow a territorial logic. On the one hand the Commission makes it possible to set up multifund programmes using the resources from different Funds (which is a good initiative and is a clear response to MS comments during the debate so far).

On the other hand, it cannot be done within one priority axis; also, priority axes from programmes of different Funds cannot contribute to the same thematic objective (although it is foreseen in Art 3.2 of the ESF regulation that the ESF can easily contribute to in principle ERDF-related activities and the ERDF regulation foresees in Art. 5 that the ERDF can contribute to all thematic priorities).

Moreover within one priority axis, the cross financing between ERDF and ESF is decreased from 10-15% to 5%. It would be recommended that at least the current levels shall be maintained, but they should rather be increased. The usefulness of the limit specified for ESF and ERDF cross financing is not substantiated. However the proposed system of multifunding is a true step forward.

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<sup>12</sup>Actually only a limited number of categories of projects is formally excluded for ERDF (article 3 of the ERDF draft regulation), such as those dealing with the manufacturing, processing and marketing of tobacco and tobacco products or the decommissioning of nuclear power stations; in more developed regions only, investments in infrastructure providing basic services to citizens in the areas of environment, transport, and ICT.

Regarding the implementation, it is clear that most beneficiaries fail to think in the different boxes of what is eligible from which Fund and often neglect which Fund their project is financed from as their main interest is that their development idea is turned into reality with the help of the European Union. The reality on the ground for project ideas does not necessarily match the artificial separation of scopes of assistance or policy areas.

So while clearly the integrated approach requires more effort in terms of planning and implementation as regards time and workload, the result is often that more well-grounded plans can be produced with increased ownership of the objectives of the project. Thus, facilitating truly integrated programmes and projects requires a shift in attitude, not only towards results and objectives, but less on absorption and expenditure. It also requires a stronger coordination and partnership at all levels between the various stakeholders.

To conclude: the integrated, territorial approach is very important in Cohesion Policy. Its advantages are evident. We must therefore attempt in the future to make it as a general, horizontal principle when drafting the regulations rather than just setting up “exceptions” or tools to facilitate it.

### **Strengthening performance through conditionality and incentives**

But concentrating resources is not enough. Public resources cannot be spent without setting in a transparent and clear way what we want to achieve with those resources. There is a very strong need to fix clear objectives, accompanied by equally clear targets, and indicators to monitor and to measure progress.

The *ex-post* evaluation 2000-06 indicated as one of weaknesses that achieving objectives and reaching targets is not linked to a system of rewards and sanctions for member states.

In the present Cohesion scheme conditionalities are set in terms of compliance with implementation and transposition of EU legislation, financial management, audit and control. For the new programming period, despite the result oriented approach advocated by the Commission and notwithstanding the possibility of applying financial corrections, EU funding disbursements will be linked to achievement of results.

The Commission wants programmes to become more effective and of a higher quality and in order to achieve this, it is proposing three major new aspects:

1. stronger target setting and monitoring systems
2. *ex-ante* conditionalities
3. performance reserve

When developing the new programmes, the Member states have to ensure there has been proper preparation for effective investment and clear results that can be measured and monitored have been defined. They have to put the necessary resources into developing an extensive and solid monitoring mechanism. Regions and countries must set clear targets and identify the indicators necessary to measure progress. It is a matter of transparency, accountability, and good public governance. It is also essential to respond to those critics who ask "what is the impact and value added of regional policy".

Conditionality will take the form of both so-called *ex ante* conditions that must be in place before funds are disbursed, and so-called *ex post* conditions that will make the release of additional funds contingent on performance.

The Commission proposes (article 17 and annex IV of the draft general Regulation) that a number of *ex-ante* conditionalities shall be defined for each Fund. This is a key development which could reinforce the "intervention logic" of EU actions by facilitating the necessary integration of Cohesion funding with other EU policies and finally have a positive impact on the effectiveness of the investments. Indeed, Court's audits show<sup>13</sup> that funding of projects not taking account of broader EU policy requirements (for example, environment and water resources protection) and outside a comprehensive development plan, setting out long term needs and priorities appropriate to the context, is not the most effective way for using EU funds.

The fulfillment of conditions, important for effectiveness, should be guaranteed. However, *ex-ante* conditionalities must be directly linked to the operations financed as well as these conditions should have a strong relevance for effectiveness. Additionally, the meeting of these conditionalites should be assessed in a straightforward and objective manner.

For the new period, the Commission also plans to release 5% of the funds depending on the results obtained (Articles 18, 19 and 20 of the draft general Regulation). One should recall in this respect that there was a performance reserve in the 2000-2006 period at EU level, but as indicated by the Impact assessment, the complexity of its rules and the lack of an appropriate methodology to assess progress achieved by programmes limited the success of its implementation. In the 2007-2013 period, member states could apply performance reserves at national level on an optional basis but very few have made use of this possibility.

The method for the performance review (detailed in Annex 1 of the draft general Regulation) shows that this review will still mainly focus on financial implementation (financial indicators), on outputs and only in a limited way on results (outcomes, impacts).

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<sup>13</sup>See Special Reports No 3/2009 and No 9/2010.

The question is also whether it would be possible to set robust indicators, how factors unrelated to a specific programme could be identified, how results which may only be visible in the long term could be taken into account.<sup>14</sup> If this is not possible, the added-value of a performance reserve will be considerably reduced as there is a risk that very low targets will be set and that in the end the performance disbursements will be based mainly on absorption grounds. The performance reserve for 2000-06 was used primarily to maximise spending rather than to concentrate funds on areas which were shown to be particularly effective.<sup>15</sup> So far is not visible the mechanisms of a fair, objective and transparent system. I consider the release of the performance reserve in 2019 as being rather late for the effective use of the funds. I am also concerned about applying both ex-ante and ex-post conditionalities that could double the responsibilities and potential sanctions.

Among the set of conditionalities proposed, the Commission also suggests (articles 11 and 21 of the draft general Regulation) to establish a link between Cohesion policy and European economic governance, such as the excessive deficit procedure, excessive imbalances procedure and the European semester of economic policy coordination. The Commission could ask to review programmes or suspend the funding if remedial action is not taken.

It is necessary to point out that the envisaged macroeconomic conditionality goes beyond member states' requirements for Cohesion. It thus potentially disconnects the policy instrument from its target.

Conditionalities for Cohesion are set on Partnership Contracts. Their unilateral modification following the provisions of Council Regulation (EU) N° 407/2010 (art 21.4 of the draft general Regulation) would *de facto* break this fundamental principle of Cohesion.

There is in particular a risk, highlighted by the Impact assessment<sup>16</sup>, that this measure could cause a disruption to Cohesion programmes. Regional authorities will face uncertainties in their long term planning covered by the Multiannual Financial Framework. They will also be discouraged to undertake ambitious investments that often take years to materialise, or could be exposed with the consequences of a sudden shortage of funding. This may run counter the objective of increasing economic growth as a way to help member states' public finances.

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<sup>14</sup> European Commission, SEC (2011) 1141-I, p. 62

<sup>15</sup> See Special Report No 1/2007.

<sup>16</sup> European Commission, SEC (2011) 1141-I, p. 63.

## Simplification and reducing administrative burden

The draft general Regulation provides for the harmonisation of eligibility rules with other EU financial support instruments. At the same time, the general principle introduced in the current 2007-13 period by which eligibility rules are specified at national level (and possibly for each OP) is maintained. These two principles may sometimes conflict.

The use of simplified cost options is to be continued. This is appropriate since it may help in some cases to reduce the administrative burden for beneficiaries.

The draft Regulation provides for the use of electronic data management and requires member states to set up systems by the end of 2014 to enable beneficiaries and final recipients to submit all information by way of electronic data exchange. This timeframe is not very realistic. First of all, a number of technical aspects and specifications will need to be agreed within member states and regions, but also between the different Directorates-Generals of the Commission and national authorities. Second, the type of non-financial monitoring data that will need to be reported still needs to be determined. Third, based on experience, IT projects of this scale and type almost always experience significant delays and cost overruns.

Generally, it can be said that the fewer OPs and the less Managing Authorities (MA) and Implementing bodies (IB) are involved in managing the funds, the lesser is the administrative burden. This should be considered by member states when planning the next programming period.

The draft Regulation provide that the functions of MA and the Certifying Authority (CA) can be merged. This may result in an increased responsibility of the authorising officer at the MA and a clearer accountability of the national authorities involved in managing CSF expenditure.

The draft general Regulation introduces a number of new requirements (creation and functioning of an accrediting body; submission of certified annual accounts and an annual management declaration; need for additional audit activity by the audit authorities to audit the management declaration, data collection and reporting). There are also enhanced reporting requirements for assessing the performance of the programmes and partnership contracts (in particular the annual implementation reports per priority of the operational programmes (article 44 and 101), the progress reports on the partnership contracts (article 46), the *ex-ante*, during and *ex-post* evaluations (articles 47 to 50) and the summary report summarising the findings of the evaluations (article 104)).

All this will inevitably increase the administrative cost, both at EU and Commission level.

On the other side, as a positive development, there are reasons to believe that the costs for the beneficiaries may be reduced. For example, the Commission's proposals attempt at simplifying the basis of calculation making greater use of lump sum or flat

rate payments instead of the reimbursement of 'real costs'. The Impact assessment indicates that the simplification of EU requirements could reduce the administrative burden of beneficiaries by approximately 20% (compared to the period 2007-13).<sup>17</sup>

EU rules provide (article 60 of the Financial Regulation) that spending should comply with legality, regularity and sound financial management (economy, efficiency and effectiveness).

The concept of sound financial management is surrounded by some ambiguity; in particular whether this principle represents actually a legal requirement for EU spending.<sup>18</sup> In line with the current practice, the main focus appears to be on processes and financial implementation rather than, in line with the sound financial management principle, on the actual results of the programmes and of the projects supported.

'Compliance' and 'performance' is not an 'either/or' option. Both are a fundamental requirement for achieving a proper use of public funds and should, therefore, constitute jointly a condition for their disbursement.

It still remains that sound financial management of EU spending cannot be ensured by a limited number of audits carried out by the Commission, neither by *ex-post* clearance procedures which moreover intervene too late in the process (i.e. when things have already gone wrong). As long as the principle of sound financial management is not spelled out into a practical and meaningful procedure of accounting in line with the requirements of article 318 TFEU, with criteria against which performance is to be measured, it is difficult to see how this principle will be put into practice in the new programming period when selecting, managing and controlling the funded projects and what would be the impact on EU disbursements.

## Conclusion

Cohesion policy aims at strengthening economic and social cohesion within the European Union by reducing the gap in the level of development between different regions. The Cohesion Policy programmes co-funded by the EU budget help to transform regional and national economies through investment in infrastructure, business development, training, innovation and the environment; they deliver long-term sustainable growth and contribute significantly to job creation.

The proper financial management of EU funds is important to avoid fraud and illegitimate spending. Yet more important is the quality of the funded projects.

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<sup>17</sup> European Commission, SEC (2011) 1141-II, p. 31

<sup>18</sup> For example, the provisions of article 114 of the draft General Regulation indicate that the managing authority shall be responsible for managing the operational programme in accordance with the principle of sound financial management. Yet, the description of its tasks basically relates to compliance requirements only. Moreover, when looking at the functions of the certifying and audit authorities (article 115 and 116 of the General regulation) there is no mention of the principle of sound financial management.

An optimal cohesion policy is not just about ensuring the optimal allocation of EU resources. Cohesion Policy is more complex than that and cannot be reduced to financial allocations. Many elements influence socioeconomic development and performance. Cohesion policy is always part of a wider network of policy actions and decisions. To optimize cohesion policy we must ensure that it fits in the general environment – and we must do this at European, national and regional level. Effective and sustainable development is defined in practice. One of the successes of sustainable development has been its ability to serve as a grand compromise between those who are principally concerned with nature and environment, those who value economic development, and those who are dedicated to improving the human condition.

So while clearly the integrated approach requires more effort in terms of planning and implementation as regards time and workload, the result is often that more well-grounded plans can be produced with increased ownership of the objectives of the project. Thus, facilitating truly integrated programmes and projects requires a shift in attitude, not only towards results and objectives, but less on absorption and expenditure. It also requires a stronger coordination and partnership at all levels between the various stakeholders.

It is our common interest that the programmes of the 2014-2020 period start in time. Therefore, it is important to proceed according to the tight agenda, set previously. Of course, this is a responsibility both for the Member States and the Commission. Based on our experience of the process so far we see an urgent need to concentrate the dialogue on more concrete implementation aspects in a pragmatic way.

Public spending must be accompanied by steps to strengthen the efficiency and targeting of these outlays. The future of this policy, will largely depend on what we do with the current programmes as well. There is significant scope to make existing spending more effective in fostering development by reallocating it to inputs that are most needed. We have to be able to demonstrate that we can spend well, effectively and efficiently and in time the resources we have now.<sup>19</sup>

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