1. The history and evolution of Cohesion policy

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INTRODUCTION

Cohesion policy targets the regions and cities in the European Union (EU) and aims at fostering business competitiveness, job creation, economic growth, sustainable development, and improving citizens’ quality of life. Nowadays, almost a third of the total EU budget is set aside for this policy. However, this is a relatively recent policy: it was founded in the second half of the 1980s and, since then, its aims and resources have periodically changed. The purpose of this chapter is twofold. On the one hand, it describes and analyses the main turning points of EU Cohesion policy. Starting from its origin, it goes through its subsequent reforms and concludes by emphasising some of the challenges this policy has to face today. On the other hand, it explores some of the political dynamics that have characterised this important policy. More specifically, along with its official purposes, Cohesion policy has also served unofficial and undeclared functions as its spending has often been used to create support for further integration, broaden the consensus for widening the EU or for deepening its competences (Baun and Marek 2014: 5). In the wake of new enlargements or new treaty reform, or during the negotiations on the EU Multiannual Financial Framework (MFF), Cohesion policy reform has been used as a compensatory mechanism for the more reluctant member states (MSs).

THE ORIGINS: 1957–1975

The main aim of Cohesion policy is to reduce regional economic and social disparities across EU states and regions. Given the great regional imbalances characterising the EU in the 1950s, the Preamble of the Rome Treaty declared that the signatory states were ‘anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions’, and fostering in so doing ‘a harmonious development of economic activities’ throughout the European Economic Community (European Economic Community 1957, Art. 2).

However, the Rome Treaty did not create a proper European Cohesion policy, since it was considered at that time politically divisive, unnecessary and too ambitious. As Manzella and Mendez (2009) state, the governments of several MSs were reluctant to attribute competences in this policy area to the recently founded EU institutions for four main reasons: (1) regional development policy was still nascent at national level; (2) it touched on issues related to the organisation of the states and the relation between state and enterprises; (3) it was considered unnecessary because MSs shared confidence in the creation of interregional trade as a way to reduce economic and social imbalances; and
(4) in the early 1950s there were great expectations about the capacity of the World Bank (created in 1944) to foster the dynamics of growth in underdeveloped contexts. These impediments remained substantially unaltered for about 20 years. In 1969, even the European Commission argued that: ‘even more than other branches of economic policy, regional policy is clearly the concern of the public authorities in the MSs. The measures it involves fall directly under the political, cultural, administrative, sociological and budgetary organization of the States’ (CEC 1969: 13).

As a consequence, only three instruments addressing regional imbalances were included in the Rome Treaty. The European Investment Bank (EIB), whose task was to grant loans and supply guarantees for the financing of development projects in developing and restructuring regions, was the first. The second instrument was the European Social Fund (ESF), which was set up to sustain and improve mobility in the European labour market through education and requalification initiatives for workers in areas experiencing industrial decline. Art. 124 TEC stated that this fund should be administered by the Commission, assisted in this task by a committee presided over by a member of the Commission and composed of representatives of governments, trade unions and employers’ organisations. The third instrument was the Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF), which provided support for underdeveloped rural areas. The EAGGF was based on several measures, including agricultural product marketing, farm modernisation and rural development measures.

These instruments worked inadequately. As stated by Commissioner George Thomson in the mid-1970s, ‘Forms of Community aid, useful and well justified as individual acts of policy, when looked at as a whole . . . appear to be actually widening the regional gap rather than closing it’ (quoted in Swift 1978, cit. in Bache 1998: 35). However, in the 1950s and 1960s national governments paid more attention to national regional policies, and the creation of a truly common Cohesion policy remained a controversial issue at least until the beginning of the 1970s.

When the enlargement to the United Kingdom (UK) and Ireland entered the EU agenda, the European Commission tried to promote the adoption of a different approach. In 1961, it organised a major conference in Brussels attended by regional policy officials where a reflection on the different national experiences started. The several working groups organised for that conference significantly contributed to the outline of the future configuration of the Community Cohesion policy (Bache 1998: 35; Manzella and Mendez 2009: 6). In 1968 the Commission created the new Directorate-General for Regional Policy (DG XVI), underlining once more the attention paid to a policy area still under definition and accounting only for 3 per cent of the EU budget. The European Parliament also supported the European Commission in its efforts by adopting a series of resolutions in favour of the institutionalisation of Cohesion policy (see Manzella and Mendez 2009: 7, fn. 15).

At the beginning of the 1970s, Cohesion policy definitively made it into the European Community policy agenda for two reasons. First, the oil crisis of the 1970s persuaded the national governments of the need of coordinated actions to cope with regional disparities in Europe. A resolution approved by the Conference of the Heads of State and Government in Paris in 1972 emphasised the intention to ‘give top priority to correcting the structural and regional imbalances in the Community which could hinder the achievement of the Economic and Monetary Union’. For this reason, ‘The Heads of State and
Government invite the Commission to prepare as soon as possible a report analysing the regional problems of the enlarged Community and offering suitable proposals’ (Heads of State and Government 1972). Second, accession of Denmark, the UK and Ireland in 1973 exacerbated regional disparities (Gilbert 2003: 123). From the political point of view, the entrance of the United Kingdom and Ireland enlarged the coalition of national governments that was in favour of the establishment of a common regional policy. Moreover, the fact that the UK became a net contributor to the Community budget upon accession required the adoption of (partial) economic compensation to persuade a British public opinion sceptical about the benefits of European integration (Bache 1998: 37).

In May 1973, the European Commission published the Report on the Regional Problems in the Enlarged Community (CEC 1973), known as the Thomson Report, named after the British Commissioner for Regional Policy George Thomson (see also Chapter 27, Leonardi and Holguin, this volume). According to this, reducing regional imbalances and favouring the development of the backward regions was ‘a human and moral requirement of the first importance’ because ‘No Community could maintain itself nor have a meaning for the people which belong to it so long as some have very different standards of living and have cause to doubt the common will of all to help each MS to better the condition of its people’ (CEC 1973: 4).

In July 1973, the European Commission drafted a legislative proposal concerning the creation of the European Regional Development Fund (ERDF). The main objective of the ERDF was the promotion of industry and infrastructure. The fund would address the problem of unequal development across regions. The ERDF would function according to ‘objective community indicators’. However, the national governments would retain the right to determine the eligible regions. Negotiations showed how deep the divisions between national governments were. On the one hand, the UK, Ireland and Italy – the likely main beneficiaries of ERDF – were strongly in favour of this initiative; on the other, Germany, as a net contributor, was against the creation of a big fund (Halstead 1982, cit. in Bache 1998: 39). Other divisions were related to the distribution of the fund: Germany, Denmark and the Netherlands were in favour of a small and concentrated fund; Italy and Ireland supported the idea of a bigger and concentrated fund; while the UK and France spoke in favour of a great geographical flexibility and national autonomy in the identification of the areas to be targeted (Baun and Marek 2014: 15–17).

The context changed with the election of the new German government led by Helmut Schmidt and the new French President Valéry Giscard d’Estaing in 1974, who declared that they were available to reconsider the position expressed by their predecessors. Moreover, the threats expressed by Italy and Ireland of non-attendance of the Paris summit in December also played a role. As a consequence, in December 1974 the EU leaders approved the creation of the ERDF, which was formally established in March 1975.

Initially, the ERDF achieved only modest results for three main reasons: it was considered a compensatory measure for net contributors to the Community budget; its budget of 1.3 billion EUA (European Units of Account) (around 5 per cent of the Community budget) was too small to play a significant role; the Council of Ministers was in charge of defining the budget on the basis of national quotas annually negotiated between the MSs, without targeting regions that were lagging behind in terms of development (Bourne 2006: 294–295). In other words, MS governments dominated ERDF management.

In 1979 and in 1984, two minor reforms took place. In 1979, the national governments approved a 50 per cent increase of the ERDF budget as a response to the growth of regional imbalances due to the Greek accession. As a consequence, regional policy accounted for about 6 per cent of the Community budget. In 1979, a ‘non-quota’ section was also added. Even if this section was economically irrelevant, it was politically salient: the Commission could use these funds more autonomously, to support development projects in areas not designated by the national governments. This reform also created the possibility of ‘integrated’ development programmes, supported by different funds with a regional dimension, such as the ERDF, the ESF, the EAGGF Guidance section and the EIB loans. The new legislation also granted to the Commission a strategic role: this institution was charged to write periodic reports on the economic and social conditions of the regions, eventually suggesting new regional priorities and guidelines.

The following 1984 reform progressively increased the economic resources allocated to the ERDF (from about 7.5 per cent of the European Community budget in 1984 to 9.1 per cent in 1986). The old system of national quotas was replaced by a system of indicative (minimum and maximum) ranges, although a minimum amount of ERDF funding was guaranteed to the MSs able to submit a sufficient number of acceptable applications within a specific deadline. Integrated programmes were further strengthened. Moreover, the possibility to open a negotiation with MSs to finance specific National Programmes of Community Interest was also granted to the Commission. Although these reforms enhanced the Community orientation of the policy and gave the Commission greater autonomy in deciding which regions to target, European Community regional policy essentially remained a transfer-of-payment system until 1988 (Baun and Marek 2014: 19).

By doubling the number of citizens living in less-developed regions (for example, with a per capita gross domestic product (GDP) lower than 75 per cent of the Community average), the accession of Spain and Portugal in 1986 was regarded with great concern by some MSs. Greece, in particular, threatened to veto the enlargement if the EU did not adopt measures to protect its agricultural production. As a consequence, in 1985 the Council of Ministers created the Integrated Mediterranean Programmes (IMPs), a budgetary commitment established for seven years (1986–1992) in order to help ‘the southern regions of the present Community’ – defined as the whole of Greece, parts of southern France and most of southern Italy – ‘to adjust under the best conditions possible to the new situation created by enlargement’ (Council of Ministers 1985: 11). The IMPs were based on provisions that would become the core of Cohesion policy in 1988, such as the leading role of the Commission and the active involvement of regional actors in co-financing and co-deciding the programmes (Leonardi 1995; Hooghe 1996; Heinelt 1996).

With the Single European Act (SEA), in 1986 regional policy became a Community competence and social and economic cohesion a Community goal: ‘In order 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 levels of development of
the various regions and the backwardness of the least-favoured regions, including rural areas’ (Art. 130a SEA).

Art. 130b SEA established that the achievement of these objectives should be supported through the Structural Funds, the EIB and the other existing financial instruments, and that ‘The Commission shall submit a report to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions every three years on the progress made towards achieving economic and social cohesion’. In other words, the approval of the IMPs and the adoption of the SEA completed the process of reform announced on 12 March 1985 by the Commission President Jacques Delors in the Programme of the Commission (CEC 1985, point 15), which stated explicitly that: ‘The Commission aims to reverse the trend towards treating these [structural] Funds as mere redistribution mechanisms’, and instead to treat them as instruments for the support and structural conversion of ‘regions in difficulty’.

In February 1987 the Commission presented an ambitious reform of the EU budget (the so-called Delors I package), and recalled that the SEA asked the Commission to submit to the Council:

> a comprehensive proposal . . . [on] the structure and operational rules of the existing Structural Funds . . . to clarify and rationalize their tasks in order to contribute to the achievement of the objectives (of cohesion) . . . to increase their efficiency and to coordinate their activities between themselves and with the operations of the existing financial instruments (Art. 130d SEA)

The Commission reported mainly two problems with the management of the Structural Funds. The first was the lack of complementarity between national action and Community support. The second problem was the insufficient apparent utility of Community support: ‘Community action through the Structural Funds is justified if it gives a genuine additional boost to national measures’. For these reasons, the reform was meant to ensure that resources would be concentrated in the truly most needy regions, whether backward or deindustrialising (CEC 1987).

The detailed proposal elaborated by the Commission was consequently presented in April 1987. However, the debate between governments only concerned the amount of Structural Funds spending and not the new architecture of the policy. The UK and France opposed the reform, fearing that it would have an impact on their position as net contributors to the Community budget, while the poorer MSs linked their support for further economic liberalisation to an increase in regional spending. This complicated negotiation ended only in February 1988, when the UK was assured that its special budget rebate was not jeopardised and when Germany agreed to substantially increase its budgetary contribution (Bache 1998: 54–66). Other intergovernmental considerations played a role in this reform: ‘The more prosperous MSs strongly supported the completion of the single market and wanted this market extending to include Spain and Portugal. In this context, the doubling of the structural funds was accepted by the likely paymaster governments as the trade-off securing general agreement on issues of greater importance’ (Bache 1998: 79).
THE 1988 REFORM: THE BIRTH OF COHESION POLICY

The year 1988 marked the beginning of the fully-fledged Cohesion policy. Aiming at improving the efficiency of regional policy, this reform also provided a significant increase in regional funding by doubling the Structural Funds commitments, which by 1993 would amount to 30.7 per cent of the total European budget (14 billion ECU). The reform was based on five new regulations, becoming effective in January 1989 (Box 1.1).

The new regulations introduced four basic principles:

1. Concentration: the EU assistance shall be focused on a limited number of objectives in the least-developed regions.
2. Programming: the EU assistance supports multi-annual programmes based on analysis, strategic planning and evaluation.
3. Additionality: the EU funds shall be added (and not substituted) to MSs expenditure.
4. Partnership: Community operations shall be established through close consultations between the Commission, the MSs concerned and the competent authorities designated by the latter at national, regional, local or other level, with each party acting as a partner in pursuit of a common goal.

Five priority objectives were agreed in 1988, financed by different funds (Box 1.2). Objectives 1, 2 and 5b had an explicit regional focus, while Objectives 3, 4, and 5a were concentrated on specific problems, independently from their specific localisation. In other words, this second group of objectives covered the entire Union. Objective 1 absorbed about 70 per cent of the Structural Funds allocated for the programming period 1989–1993. The entire territory of Greece, Ireland and Portugal, as well as the majority of Spain and southern Italy, the French overseas départements and Northern Ireland

BOX 1.1 THE FIVE REGULATIONS OF THE 1989–1993 REFORM

- Council Regulation (EEC) No 2052/88 of 24 June 1988 on the tasks of the Structural Funds and their effectiveness and on coordination of their activities between themselves and with the operations of the European Investment Bank and the other existing financial instruments.
- Council Regulation (EEC) No 4253/88 of 19 December 1988, laying down provisions for implementing Regulation (EEC) No 2052/88 as regards coordination of the activities of the different Structural Funds between themselves and with the operations of the European Investment Bank and the other existing financial instruments.

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could profit from these funds. In total, about 21.7 per cent of the population lived in areas covered by Objective 1, and 43 per cent of the EU inhabitants lived in areas covered by one of the territorially concentrated objectives.

The 1988 reform also created the so-called Community Initiatives (CIs), accounting for about 8 per cent of the structural fund budget for the period 1989–1993. These were managed directly by the Commission and focused on issues like economic and social conversion of the coal-mining areas, the improvement of the environment, the strengthening of the innovation capacity and technological development, cooperation between regions on different sides of national borders and others.

Initially, the power acquired by the Commission in the 1988 reform did not encounter important opposition from the MSs. The wealthier MSs, in particular, looked at the Commission as a guardian of the efficient spending in the poorer MSs, where the bulk of Structural Funds was being spent (Pollack 1995: 372), and considered the increased importance of the Commission as a natural side-effect of the doubling of financial resources dedicated to the policy.

In short, the 1988 reform promoted the creation of a truly European regional policy, transforming it ‘from an essentially budgetary transfer to . . . a genuine regional development tool with the potential to provide effective solutions to the problems faced by the Community’s regions’ (Manzella and Mendez 2009: 13). Moreover, since 1988 Cohesion policy assumed not only an economic connotation, but also a

BOX 1.2 THE FIVE PRIORITY OBJECTIVES OF THE 1989–1993 REFORM

- **Objective 1** Promoting the development and adjustment of the regions whose development is lagging behind (i.e. where per capita GDPs less than, or close to, 75% of the Community average) (list revised every five years).

- **Objective 2** Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline (criteria: average unemployment rate above the Community average, industrial employment rate above the Community average, decline in industrial employment) (list revised every three years).

- **Objective 3** Combating long-term unemployment (above the age of 25, unemployed for more than 12 months).

- **Objective 4** Facilitating the occupational integration of young people (job-seekers below the age of 25).

- **Objective 5(a)** Reform of the Common Agricultural Policy by adapting production, processing and marketing structures in agriculture and forestry.

- **Objective 5(b)** Reform of the Common Agricultural Policy by promoting the development of rural areas. Criteria: agricultural employment accounting for a high proportion of total employment; low level of agricultural income; low level of socio-economic development in terms of per capita GDP.

political dimension, pointing to a greater involvement of subnational institutions in Community policy-making (Hooghe 1996: 6–7). The new policy was based on an ‘integrated approach’: a reduction in territorial disparity was possible only if subnational institutions, especially regional authorities, were involved in decision-making and implementation processes. For this reason, the Commission promised that it would promote all possible initiatives ‘to align agents before the race starts’ (Bailey and De Propris 2002: 409). At the same time, however, it also became clear to the Commission that involving regional actors in decision-making would help to strengthen its own position in this specific policy area as a broker of agreements between the actors involved (Ansell et al. 1997; Hooghe 1996).

THE 1993 REFORM: COHESION POLICY AS A KEY TOOL FOR THE EMU

The 1993 reform took place in the context of the coming into force of the Maastricht Treaty. This treaty (signed in February 1992) set the scene for the construction of the Economic and Monetary Union (EMU) and confirmed the centrality of Cohesion policy for reducing socio-economic disparities among the European regions whilst easing the structural constraints that might otherwise impact upon the adoption of the single currency. Moreover, this reform also referred to the need to address MSs’ concerns about the operation of the funds (particularly in view of the substantial increase in structural funding), and the enlargement to include Finland, Sweden and Austria (which would take place in 1995).

The Maastricht Treaty further expanded the role of the Commission in Cohesion policy, confirming its right to make appropriate proposals in order to strengthen EU economic and social cohesion (Art. 159 TEC). Moreover, the treaty created a new structural instrument, the Cohesion Fund, aimed at MSs whose gross national income (GNI) per inhabitant was less than 90 per cent of the EU average. This decision followed a threat by Spain, Portugal, Greece and Ireland to veto the Treaty approval unless a financial instrument was established to help less-developed countries which were facing serious difficulties in fulfilling the single market criteria (Ross 1995: 152, 182, 190).

The Objectives were consequently slightly revised (Box 1.3). If, on the one hand, Objective 1 and 2 remained unaltered, the new Objective 3 combined the previous Objectives 3 and 4, introducing special attention for the ‘integration ... of those threatened with exclusion from the labour market’. At the same time, the new Objective 4 gave effect to the tasks laid down for the ESF in the Maastricht Treaty, aiming at facilitating workers’ adaptation to industrial changes and to changes in production systems. Objective 5a maintained its initial goals, but also included aid to modernise and restructure fisheries, while Objective 5b facilitated the ‘development and structural adjustment of rural areas’. Due to new territorial challenges in view of the Union’s enlargement, a new Objective 6 for developing sparsely populated Nordic regions was introduced. Finally, a new regulation was added, laying down provisions regarding the Financial Instrument for Fisheries Guidance (FIFG).

The new regulations also promoted new measures to increase partnership, foster transparency, simplify fund allocation procedures, and specify the role of national
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governments, subnational institutions and the European Commission in light of the subsidiarity principle (CEC 1993), and provided for an extension of partnership from subnational governments to economic and social partners.

On 16 June 1993 the Commission published a Green Paper on the Community Initiatives suggesting five main aims for future CIs: cross-border, transnational and interregional cooperation and networks; rural development; assistance to the outermost regions; employment promotion and development of human resources; and management of industrial change. After the consultation debate (CEC 1994), two new priorities were added: development of urban areas hit by a crisis; and restructuring of the fishing industry. As a consequence, in June 1994 new CIs were adopted. In addition, in 1995 the Commission launched a new initiative called Peace, to support the peace and reconciliation process in Northern Ireland (CEC 1996).

THE 1999 REFORM: IMPROVING EFFECTIVENESS IN VIEW OF ENLARGEMENT

The 1999 reform was framed by the EU’s commitment to support the accession of the Central and Eastern European (CEE) countries, and the introduction of EMU. Enlargement, in particular, prompted changes to regional policy, allowing for the accommodation of new members whose levels of wealth were considerably lower than those of the EU15 (Begg 1999). Eastern enlargement represented a more serious challenge for the

BOX 1.3 THE SIX REGULATIONS OF THE 1994–1999 REFORM

EU than previous enlargements. In fact, the richest candidate country, Slovenia, had a per capita income around 70 per cent of the EU average. In other words, almost the entire territory of the candidate countries would be eligible for Objective 1 assistance.

The economic context was also important. The launch of EMU took place in a period of slow economic growth for many MSs, with Germany struggling to pay the costs of the ‘internal’ enlargement to the eastern Länder. Moreover, the Amsterdam Treaty set the achievement of a ‘high level of employment’ as one of the main aims of the EU. For all these reasons, in November 1997 the European Council expressed its ‘hope that the forthcoming reform of the Structural Funds . . . [would] make optimum use of the Funds to serve employment needs wherever possible in the framework of the objectives assigned to them while respecting their primary purpose, which is to enable regions lagging behind to catch up’ (European Council 1997).

The Commission outlined its plan for addressing these challenges in the ‘Agenda 2000: For a Stronger and Wider Union’, a document offering a vision of the future of the EU on the threshold of the twenty-first century. The document highlighted a number of priorities, such as the need to: maintain Cohesion policy; pursue the reform of the Common Agricultural Policy (CAP); strengthen growth, employment and living conditions through the EU internal policies; and to allow the accession of new members, while maintaining budgetary discipline. In fact, the 1999 reform did not foresee increasing spending on the Structural Funds but it was instead focused on the stabilisation of total expenditures. Concentration, efficiency and simplification became the cornerstones of this reform, which included a reduction to three of the number of the Objectives (thus reducing the scope of the Structural Funds), the reduction of the CIs from 13 to four, stricter eligibility rules, and the addition of a new efficiency principle to the existing five principles. A timely and efficient use of Structural Funds was promoted by the so-called N+2 rule: funds would be automatically ‘de-committed’ by the end of the second year following the year of commitment. Moreover, a performance reserve was also introduced: the 4 per cent of the indicative allocation for each MS held back at the beginning of the period was allocated as a ‘performance reserve’ to the programmes whose performance the Commission, on the basis of proposals from the MS, considered to be successful. A greater role was to be delegated to domestic actors in the implementation and monitoring of programmes, thus reducing the Commission’s sphere of action and conferring greater room for manoeuvre on national and subnational governments (Hooghe 2002; Sutcliffe 2000).

MSs looked at the Commission proposals with some concern. If, on the one hand, they agreed on the need of a major reform, on the other hand they tried to reduce the loss of the Structural Funds for their own regions. As a consequence, the Commission’s formal legislative proposals presented in March 1998 explicitly introduced specific assistance for areas affected by the loss of Structural Funds and provisions for a ‘safety net’. The MSs were deeply divided over the budgetary figures. The net contributors to the EU budget (primarily Germany and the Netherlands) opposed any significant increase in EU Cohesion policy spending, while the net beneficiaries of regional policy (Spain and Italy) argued that it would be unfair to pay for the eastern enlargement by reducing the resources previously devoted to the Structural Funds. In the late spring and early summer of 1999 the new regulations were finally approved (Box 1.4).

Following the Commission’s proposals, the new regulations reduced the number of
 priorities from seven to three: Objective 1, promoting the development and structural adjustment of regions whose development is lagging behind; Objective 2, supporting the economic and social conversion of areas facing structural difficulties; and Objective 3, supporting the adaptation and modernisation of policies and systems of education, training and employment.

As said before, under the new regulations, regions that were eligible for regional assistance under the Objectives in 1994–1999, but which were no longer eligible in 2000–2006, qualified for an appropriate level of digressive transitional assistance in order to avoid an abrupt cessation of Community funding. Among those regions which were no longer eligible for Objective 1 funding, a distinction was made between those which, in 1999, met the basic eligibility criteria for funding under the new Objective 2 and those that did not. The former were entitled to transitional assistance from the four Structural Funds until 31 December 2006, whereas ERDF funding for the latter stopped on 31 December 2005. Since Objective 1 continued to receive the large majority of the resources, the MSs more privileged in funding allocation were Spain, Italy, the German eastern Länder, Greece and Portugal.

Concentration affected also the CIs, whose number was reduced to four: Interreg III, promoting cross-border, transnational and interregional cooperation intended to encourage the harmonious and balanced development and spatial planning of the European territory; Leader+ aiming at the promotion of the rural development via integrated programmes and cooperation between local action groups; Equal, focused on fighting all forms of discrimination and inequalities in connection with access to the labour market; and Urban II, fostering social and economic regeneration of towns and neighbourhoods in crisis, with a view to promoting sustainable urban development.

THE 2007 REFORM: MATCHING AN ENLARGED UNION AND WIDER EU GOALS

According to Baun and Marek (2014: 49), ‘the regulatory package that was approved in July 2006 represented the most radical reform of cohesion policy since 1988’ (see

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<th>BOX 1.4 THE FIVE REGULATIONS OF THE 2000–2006 REFORM</th>
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<td>● Council Regulation (EC) No. 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations.</td>
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also Manzella and Mendez 2009: 19). Two factors explained these major changes: the adaptation of Cohesion policy to the EU’s eastern enlargement, and the need that this policy focuses on the goals established by the new Lisbon Agenda. In its Third Report on Economic and Social Cohesion, the Commission suggested that the enlargement would lead to a widening of the economic development gap, a geographical shift in the problem of disparities toward the east and a more difficult employment situation: socio-economic disparities will double, and the average [per capita] GDP of the Union will decrease by 12.5 percent’ (CEC 2004: xxv). This perspective caused growing concern among the MSs that feared the shift of resources from the wealthiest MSs to the new ones. From a political point of view, the new situation polarised the debate around two big coalitions: on the one side, there were the MSs favouring a greater spending on Cohesion policy; on the other, the wealthier states that opposed any significant increase of their contribution to the EU budget.

The so-called Lisbon Strategy was the second factor influencing the reform. In March 2000, the European Council launched an ambitious programme of reforms in order to make the EU by 2010 ‘the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion’ (European Council 2000). To achieve this objective, measures at Community level should concentrate on key actions and areas such as supporting knowledge and innovation in Europe; reforming state aid policy; better regulation; developing the internal market for services; completing the Doha round of international trade negotiations; removing obstacles to mobility; developing a common approach to economic migration; managing the social consequences of economic restructuring. Even if the Lisbon Strategy was difficult to implement and presented many limits, it contributed to a profound reframing of Cohesion policy.

The new regulations (Box 1.5) suffered from the long bargaining process between the Commission and national governments taking place over the adoption of a new Financial Perspective for 2007–2013. With discussions starting in the autumn of 2004, a political agreement concerning the new EU budget was only achieved during the European Council meeting of December 2005, and the allocation made available to Cohesion policy was decided only in April 2006 when, in the framework of an interinstitutional agreement, the EU decided to convey to Cohesion policy 35.7 per cent of the total EU budget, or €308 billion (in 2004 prices). In absolute terms, this amount represented an increase from the past; however, as a percentage of EU GDP it represented a decrease compared to the previous period.

As of 2007 three new (or revised) Objectives defined Cohesion policy: Convergence, Regional Competitiveness and Employment, and European Territorial Cooperation. The Convergence Objective aimed to stimulate growth and employment in the least-developed regions. It highlighted innovation and the knowledge-based society, adaptability to economic and social changes, and the quality of the environment and administrative efficiency. The areas eligible for the Convergence Objective combined the regions with a GDP less than 75 per cent of the Community average and MSs eligible for the Cohesion Fund on a national criteria basis (GNI less than 90 per cent of the European average).

The Regional Competitiveness and Employment Objective aimed to reinforce the regions’ competitiveness and attractiveness as well as employment, by anticipating economic and social changes. It covered all the areas of the EU not eligible for the
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Convergence Objective. This was the unique provision established for defining territorial eligibility. In other words, contrary to the previous Objective 2, there would no longer be any Community zoning for the Regional Competitiveness and Employment Objective.

Finally, a new Objective for European Territorial Cooperation supported cross-border cooperation through joint initiatives by local and regional authorities, whilst at the same time fostering transnational and interregional cooperation and exchanges of best practice. More specifically, this Objective aimed to promote common solutions in domains such as urban, rural and coastal development, the development of economic relations, and the setting up of small and medium-sized enterprises (SMEs). The focus of cooperation was on research, development, the knowledge-based society, risk prevention and integrated water management. Three programmes were established to support this objective: Interact, which encouraged organisations involved in cooperative programme management; Urbact, which was a thematic city network; and ESPON, an observation network for spatial planning. Eligibility criteria changed accordingly to the main aims of the proposed projects: for cross-border cooperation, NUTS 3 level regions were eligible, along all the land-based internal borders and some external borders, along maritime borders separated by a maximum distance of 150 km; for transnational cooperation, all the regions were eligible but in the framework of the 13 cooperation zones identified by the Commission; for interregional cooperation, and setting up networks and exchanges of experience, non-specific eligibility criteria were established.

About 81.5 per cent of all financial allocations were devoted to the Convergence Objective; 16 per cent supported the Regional Competitiveness and Employment Objective; and 2.5 per cent was allocated to the European Territorial Cooperation Objective. In absolute terms, the MSs which benefited most were Poland, Portugal, Spain, Italy, the Czech Republic, Germany and Hungary.

### BOX 1.5 THE SEVEN REGULATIONS OF THE 2007–2014 REFORM

The reform further confirmed the operational principles defined for the 2000–2006 programming period, but with some adaptations. The scope of the partnership principle was widened to any appropriate organisation representing civil society, environmental partners, non-governmental organisations and organisations responsible for promoting equality between men and women: they are entitled to participate in all stages concerning the use of Structural Funds, from the setting up to the evaluation phases. Secondly, the principle of additionality was applied differently: if, on the one side, it was confirmed that the Structural Funds must not substitute a state’s spending, on the other side a financial corrective mechanism was introduced in the event of this principle not being respected. Moreover, a new proportionality principle was defined in order to modulate the MSs’ obligations to the total amount of expenditure on an operational programme. This rule concerns the choice of indicators used to assess a programme, the obligations in terms of evaluation, management and reporting; and the control and monitoring obligations: if the programme does not exceed €750 million and if the contribution of the Commission does not exceed 40 per cent of public expenditure, the state has less obligations.

Finally, the new Cohesion policy was more closely linked to other EU policies such as the CAP and the Common Fisheries Policy. Moreover, cooperation with non-EU countries was no longer part of Cohesion policy, as two new initiatives, the European Neighbourhood and Partnership Instrument (ENPI) and the Instrument for Pre-Accession Assistance (IPA) provide funds to that end. Finally, three new instruments were introduced to help regions and MSs manage their funds more effectively and to make good use of the financial resources given by the EIB and by other financial institutions: JASPERS (Joint Assistance to Support Projects in European Regions), which aims to support cooperation between the European Commission, the EIB, and the ERDF in order to pool expertise and to assist MSs and regions in the preparation of major projects; JEREMIE (Joint European Resources for Micro and Medium Enterprises) which is promoted by the Commission, the EIB and the European Investment Fund in order to increase accessibility to EU funds for micro, small and medium-sized enterprises; and JESSICA (Joint European Support for Sustainable Investment in City Areas), which coordinates the efforts of the Commission, the EIB, and the Council of Europe’s Development Bank in the field of sustainable investment in urban areas (see Bubbico et al. Chapter 12, this volume).

THE 2014 REFORM: RESPONDING TO A MUTATED ECONOMIC CONTEXT

The last reform of Cohesion policy was also framed in a period of changes. More specifically, the approval of the Lisbon Treaty in December 2007 established the new legal context in which the 2014 reform occurred (European Union 2007). Article 174 TFEU, for instance, recognised Cohesion policy as one of the main instruments of the EU aiming at promoting the EU ‘overall harmonious development’. Moreover, Art. 4 TFEU categorised Cohesion policy as a shared competence between the Union and the MSs, and Art. 175 TFEU changed the legislative process in the field of Cohesion policy from the traditional ‘assent procedure’ to the new ‘ordinary legislative procedure’, attributing to the European Parliament a more decisive role (see Hübner, Chapter 9, this volume).
And, once again, the economic context was also important. The dramatic economic crisis that originated in the United States in 2008 had a great impact on the eurozone, and especially on Greece, Ireland, Portugal, Italy and Spain. The debate on possible solutions divided the MSs between those in favour of the adoption of austerity measures and those in favour of solidarity. The severe economic recession afflicting the EU raised unemployment to an unprecedented level, particularly in Southern Europe. Deprived of a real anticyclical EU policy, Cohesion policy was then used to mobilise new resources for the national economies facing difficulties. The Commission adopted measures along three main lines of interventions: secure greater flexibility, give regions a head start (increasing cash flow, helping with major projects, simplifying state aid rules) and target Cohesion policy smart investment. Greater flexibility has also been introduced in the calculation of the final EU contribution. Moreover, the Commission proposed measures to simplify the financial management of the Cohesion policy programmes to reduce the administrative burden, such as the introduction of lump-sum or flat-rate payments for reimbursement. The Commission (backed by the European Council) also approved the advance payments (about €6.25 billion in 2009) for investment of the 2007–2013 programmes in order to boost public investment. Finally, the Commission approved a series of measures to accelerate the development of major projects (CEC 2010a). In this context, in March 2010 the European Council approved the new document, Europe 2020, delineating a ten-year strategy to obtain jobs and growth in the EU. Five headline targets were agreed for the EU to achieve by the end of 2020: employment; research and development; climate and energy; education; and social inclusion and poverty reduction.

The Commission’s new approach to Cohesion policy was presented in November 2010 within the Fifth Report on Economic and Social Territorial Cohesion (CEC 2010b). In this report, the Commission presented the benefits of Cohesion policy not only for the poorest MSs, but for the entire EU. The Commission presented its formal legislative proposals in October 2011. These proposals emphasised the importance of the investment for growth and jobs and of European territorial cooperation, the promotion of the new partnership contracts in which MSs would specify the actions to be taken to achieve Europe 2020 goals with the help of Cohesion policy, and proposed a new distinction between regions: more-developed regions, with a per capita GDP above 90 per cent of the EU27 average; transition regions, with a per capita GDP between 75 and 90 per cent of the EU27 average; less-developed regions, with a per capita GDP less than 75 per cent of the EU27 average.

MSs reacted differently. On the one side, the MSs less affected by the economic crisis supported the idea of a reduction in Cohesion policy spending, while the others were critical on this reduction. Moreover, the regions in the latter states were also against the automatic disbursement of EU funds in the MSs failing to adhere to EU economic governance rules on public deficits and debt, the so-called ‘macro-conditionality’ (Baun and Marek 2014: 61). Negotiations over new regulations and the Multiannual Financial Framework (MFF) began in 2011 and were very difficult. They lasted until February 2013 for the MFF, when the European Council agreed to grant €325 million to Cohesion policy, about 34 per cent of an EU budget amounting to 1 per cent of the EU GNI. Added to the allocation provided for the youth employment initiative, rural development and the European Maritime and Fisheries Fund (EMFF), the total figure amounted to about €450 million. The successive tensions with the European Parliament, whose consent was
necessary for the final approval of the EU budget, left these figures unaltered. The new regulations for Cohesion policy were then approved in December 2013 (Box 1.6).

These regulations created the premises of what has been called European Structural and Investment Funds (ESIF): the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. These funds had to cope with 11 new thematic objectives related to Europe 2020 priorities:

1. Strengthening research, technological development and innovation.
2. Enhancing access to, and use and quality of, information and communication technologies.
3. Enhancing the competitiveness of SMEs.
4. Supporting the shift towards a low-carbon economy.
5. Promoting climate change adaptation, risk prevention and management.
6. Preserving and protecting the environment and promoting resource efficiency.
7. Promoting sustainable transport and improving network infrastructures.
8. Promoting sustainable and quality employment and supporting labour mobility.
10. Investing in education, training and lifelong learning.
11. Improving the efficiency of public administration.

According to the Commission’s proposals, two new goals also replaced the previous three Objectives (investment for growth and jobs, and European territorial cooperation) and a new three-tier classification of EU regions was approved. The operational principles remained substantially unchanged, but more results-oriented. More specifically, concentration touches upon three aspects: concentration of resources (70 per cent of structural fund resources for 2014–2020 are concentrated on the poorest regions and countries); concentration of effort (four thematic objectives – research and innovation, information and communication technology, competitiveness of SMEs, transition to a low carbon dioxide, CO₂, emissions economy – absorb a large majority of resources); and concentration of spending (at the beginning of each programming period, annual funding is allocated to each programme; according to the N+3 rule, these funds must be spent by the end of the third year after their allocation). Moreover, new conditionality measures have been introduced to reinforce the results-orientation emphasis. A so-called ex ante conditionality was set up, introducing a number of framework conditions which must be in place before the funds are disbursed to ensure that investments can be made in the most effective manner and that the selected thematic objectives and investment priorities are properly implemented. Also, progress towards the achievement of these objectives is now closely monitored and measured against a set of milestones agreed as part of a performance framework. Moreover, macroeconomic conditionalities are intended to ensure that the effectiveness of the funds is not undermined by unsound macroeconomic policies. Last but not least, each MS has to negotiate with the Commission a new Partnership Agreement which outlines the country’s strategy and proposes a list of programmes.

CONCLUSIONS

This chapter presented the main turning points of the EU Cohesion policy, from its origin to the most recent reforms. During its history, this policy has changed considerably, especially in the 1988 and in 2006 reforms: from a budgetary transfer to the MSs, Cohesion policy is today a genuine regional development tool. Moreover, Cohesion policy is now integrated with the most important EU policies and supports all the actions and objectives established in the most comprehensive strategic documents, such as Europe 2020. This policy is relevant not only from the economic and social point of view, but also from a political perspective, since it has been used as an instrument to broaden support for EU integration, especially in the more reluctant MSs. This political dimension is particularly salient: it explains why this policy has seen its financial means growing since the mid-1980s and why its organisation has been so difficult to reform.
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