

## THE EUROPEAN UNION'S COHESION POLICY IN THE FACE OF NEW CHALLENGES

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**Abstract:** Cohesion policy is one of the most important policy areas of the European Union in the current programming period. Its main objective is to reduce regional disparities throughout the Union. Since its inception, it has evolved as a result of successive enlargements, changes in the economic and political situation in Europe and political preferences. These changes are visible in the current programming period and are also inevitable in the next phase. The aim of the article is to present the changes that will take place in the European Union Cohesion policy in the future programming period and to identify the most important challenges that this policy will have to face. The article presents a brief description of the current programming period, as well as the countries that are payers and net beneficiaries of this policy. The next part presents proposals for the new policy - the most important objectives, principles, as well as the amount of funds for individual Member States. The third part includes the identification of the most important future challenges for the cohesion policy: the exit of Great Britain from the European Union, climate change, security and migration issues, as well as potential enlargement of the Community to the Western Balkans countries.

**Keywords:** European Union, cohesion policy, regional policy

### 1. Introduction

Cohesion policy has played and continues to play an important role in reducing regional disparities between the countries and regions of the European Union. It provides less developed regions with the possibilities to catch up and enables all regions' investment in EU priorities and facing new challenges.

Cohesion policy, which used to focus on the poorest and most underdeveloped regions, has been covering an increasing number of areas in recent years. In this context, some authors refer to "a substitutive economic policy or quasi economic policy", which was introduced through the back door of the cohesion policy (Dörr, 2016). The aim of the article will be to present the challenges and changes which the European cohesion policy will be facing in the near future. Thematically, it is divided into two interconnected parts. The first part will describe

the current programming period 2014-2020, present its assumptions and problems. The second part will describe the challenges and problems that will have to be taken into account in the cohesion policy in the future programming period.

In this paper, two different methods have been applied. In the first part, a comparative analysis between two programming periods has been conducted, in the second – the analysis of new documents and proposals which can determine the new EU regional policy.

## **2. Programming period 2014-2020**

Two objectives of cohesion policy are pursued in the current programming period: Investment in growth, employment and European territorial cooperation and 11 thematic objectives in support of growth. They are subordinated to the implementation of the Europe 2020 strategy, a key document adopted by the Council of the European Union in June 2010. For the implementation of the cohesion policy, it was important to create a package of acts which outlined the framework of the policy for the years 2014-2020. In part, they constitute a continuation of the cohesion policy from the previous period 2007-2013, but they also contain new elements which are more consistent with the adopted strategy (Szlachta, 2012, p. 236). The European Commission has defined 5 new elements in the following way (European Commission 2014):

1. greater focus on results – clear, transparent and measurable objectives and greater accountability,
2. simplification – the same rules for the five funds,
3. conditions – setting specific preconditions for the allocation of funds,
4. a stronger urban dimension and the fight for social inclusion,
5. connection to economic reform – the Commission may suspend the granting of funds to a Member State that does not respect EU economic rules.

Cohesion policy seeks to reverse the negative trends linked to the financial and debt crisis, which did not allow the ambitious objectives of the previous period to be met. In addition to stalling growth or, in some countries, falling GDP, rising unemployment, disparities in terms of GDP per capita and employment rates between Member States have also been observed. In 2014, disparities in employment rates started to decrease, and in 2015, disparities in GDP per capita became lower (European Commission, 2017). The employment rate in the EU was steadily increasing, reaching the level of 73.2% in 2018. The Europe 2020 target has not yet been met (reaching 75% for the whole EU in 2020), but the continuation of the trend will bring the EU closer to this level. Less developed regions have made the most progress, but the regions in transition (the so-called intermediate regions) have achieved poor results. The unemployment

rate in the EU fell from a high 10.9% in 2013 to 6.3% in June 2019, while many countries recorded historical minima in this respect (Eurostat, 2019).

When analysing the course of cohesion policy implementation, the European Commission has identified a number of problems that will have to be solved in the near future:

1. insufficient investment in innovation, skills and infrastructure, especially in the less urbanised regions of the Eastern and Southern parts of the EU,
2. the need for further investment in energy efficiency, renewable energy sources and low-carbon transport to reduce greenhouse gas emissions – it has been recognised that climate change will lead to environmental changes that will be costly to adapt to,
3. cross-border cooperation needs to be further developed and obstacles have to be removed across the EU-borders are still considered as a barrier and do not allow some regions to benefit from the effects of integration,
4. it is also necessary to improve the quality of governance and implement growth-enhancing structural reforms to develop competition, business environment, education and human capital,
5. national growth-enhancing public investment needs to be improved, as it has declined as a result of the financial and debt crisis.

The redistributive effect of cohesion policy is best seen by comparing Member States' contributions to cohesion policy funding with the funds received under the policy. Data on cohesion policy spending in each Member State are published annually by the European Commission in financial reports. The contribution of individual states to the cohesion policy is determined indirectly, as national contributions are assigned to the general budget of the European Union. Therefore, these amounts are determined by dividing the total expenditure on cohesion policy into financial shares of the individual Member States. The analyses assume that the EU budget consists exclusively of expenditure on cohesion policy. By comparing the alleged cohesion policy contributions with the cohesion policy funds received, a net value can be established for each Member State.

**Table 1.**

*Balances of EU Member States in the field of cohesion policy. Annual average values for 2014-2017 (Croatia is not included in the analysis)*

Country	Balance of cohesion policy	
	EUR million	% of GNP
Germany	-6 441.7	-0.21
France	-5 445.4	-0.24
UK	-3 918.9	-0.17
The Netherlands	-1 570,5	-0.23
Italy	-1 552.8	-0.08
Belgium	-1 055.4	-0.25
Sweden	-1 010.1	-0.22
Austria	-842.0	-0.25
Denmark	-713.6	-0.26
Finland	-496.3	-0.23

Cont. table 1.

Ireland	-522.2	-0.27
Luxembourg	-81.8	-0.24
Cyprus	17.3	0.10
Malta	87.3	1.02
Spain	218.0	0.02
Estonia	221.0	1.09
Slovenia	301.9	0.81
Latvia	424.3	1.73
Lithuania	518.2	1.40
Bulgaria	917.8	2.07
Slovakia	1 493.2	1.92
Portugal	1 510.7	0.85
Greece	2 140.2	1.21
Romania	2 657.1	1.68
Hungary	2 905.1	2.73
Czech Republic	3 150.4	2.00
Poland	6 907.3	1.67

Adapted from: "Die Finanzierung der EU nach 2020. Zeit für Reformen" by B. Busch, (2018)

The table shows that the group of net payers in the field of cohesion policy includes the so-called old European Union except Spain, Portugal and Greece. In turn, the group of net beneficiaries comprises primarily the countries of the former Eastern Bloc.

### 3. Programming period 2021-2027

In May 2018, the European Commission presented a new framework for cohesion policy in the next programming period. It is intended to focus on five priorities where the EU can achieve the best results:

1. smarter Europe through innovation, digitisation, economic transformation and support for small and medium-sized enterprises,
2. greener, carbon-free Europe through investment in renewable energy sources and the fight against climate change,
3. better connected Europe – with strategic transport infrastructure and digital networks,
4. stronger social Europe implementing the European social rights pillar and investing in quality employment, education, skills, social inclusion and equal access to social protection,
5. Europe closer to its citizens by supporting bottom-up development strategies.

In the new programming period, regions will continue to be divided into three groups – less developed, more developed, and being in a transitional period. Funds will continue to be allocated mainly on the basis of GDP per capita, but new elements have emerged, i.e. youth unemployment, education levels, climate change, reception and integration of migrants. An important change is related to the strengthening of the urban dimension of cohesion policy

– 6% of European Regional Development Funds (ERDFs) will be allocated to sustainable urban development and a new programme – the European Urban Initiative – will be created.

The presented new framework for the cohesion policy also included the amount of allocation for individual Member States under the cohesion policy.

**Table 2.**

*Financial allocation to EU Member States for the programming period 2021 to 2017 at constant and current prices*

Country	Allocation amount in constant 2018 prices in EUR	Allocation amount in EUR at current prices
Austria	1 279 798 248	1 442 289 880
Belgium	2 443 732 247	2 754 198 305
Bulgaria	8 929 511 492	10 081 635 710
Croatia	8 767 737 011	9 888 093 817
Czech Republic	17 848 116 938	20 115 646 252
Cyprus	877 368 784	988 834 854
Denmark	573 517 899	646 380 972
Estonia	2 914 906 456	3 285 233 245
Finland	1 604 638 379	1 808 501 037
France	16 022 440 880	18 058 025 615
Greece	19 239 335 692	21 696 841 512
Spain	34 004 950 482	38 325 138 532
The Netherlands	1 441 843 260	1 625 023 473
Ireland	1 087 980 532	1 226 203 951
Lithuania	5 642 442 504	6 359 291 448
Luxembourg	64 879 682	73 122 377
Latvia	4 262 268 627	4 812 229 539
Malta	596 961 418	672 802 893
Germany	15 688 212 843	17 681 335 291
Poland	64 396 905 118	72 724 130 923
Portugal	21 171 877 482	23 861 676 803
Romania	27 203 590 880	30 765 592 532
Slovakia	11 779 580 537	13 304 565 383
Slovenia	3 073 103 392	3 463 528 447
Sweden	2 141 077 508	2 413 092 535
Hungary	17 933 628 471	20 247 570 927
Italy	38 564 071 866	43 463 477 430

Adapted from: "European Commission, EU budget: Regional Development and Cohesion Policy beyond 2020" (2018).

Comparing the European Commission's proposals with the previous financial allocation, it should be noted that the group of Member States which will be affected by the largest reduction in funds for cohesion policy will include the countries of Central and Eastern Europe, in particular the Czech Republic, Poland, Estonia, Lithuania and Hungary (reduction by approximately 24%). Malta (24%), Slovakia (22%) and Germany (21%) will also record a large decrease. The countries of Southern Europe – Greece (increase by 7%), Romania, Bulgaria, Italy and Spain will be the largest beneficiaries. The increase in spending for the old Member States is related to the financial and debt crisis and the effects on these countries. The Scandinavian countries, Austria and the Benelux countries (Donati, 2019) are the most stable in terms of cohesion policy spending.

In general, the size of the allocation in the new programming period will be insufficient to meet the needs of two groups of peripheral countries – Central and Eastern Europe and the old Member States of Southern Europe. This may lead to an increase in Euroscepticism in countries dissatisfied with the allocation of funds.

#### **4. Challenges facing cohesion policy in the future programming period**

In the coming years, EU cohesion policy will face a number of challenges that will undoubtedly have significant impact on its form. These considerations concern only a few of them: the UK's exit from the European Union, climate change, migration and security problems, as well as the potential enlargement of the European Union to include new Member States.

##### **4.1. Brexit's impact on cohesion policy**

The withdrawal of the United Kingdom from the European Union will have financial consequences for the EU budget, and thus for the funding of cohesion policy. This will create a gap since the United Kingdom has always been an important net contributor to this policy. For the current funding period, even if Brexit happens in 2019, the United Kingdom will participate in cohesion policy as if it were still a member of the EU. This is due to the fact that the amounts for cohesion policy have already been distributed among the Member States. It should also be borne in mind that the n+3 rule applies in the current programming period, which means that the funds allocated in year n must be converted into payments within three years at the latest. This means that the funds allocated in 2020 must be spent by 2023. The United Kingdom has declared that, until then, it will participate in the payment of such commitments (European Commission, 2017).

However, in the next programming period, a significant structural gap will occur, estimated at €3.7 to €4 billion per year. This means that spending on cohesion policy for the 27 other Member States will have to be reduced by this amount. If the limit for EU own resources for payments, currently 1.2% of the gross national income of all Member States, is not increased, then after Brexit cohesion policy expenditure could be reduced by approximately 16% (Busch, 2018, p. 41).

Brexit will also have a significant statistical effect on EU regions. The UK's exit from the EU will reduce the average GDP per capita at purchasing power parity for the EU as a whole by around 1% and thus the absolute value of the threshold of 75% of the EU average, which is relevant for cohesion policy. Regions that had a GDP per capita slightly below this threshold will move from less developed regions to transitional ones thanks to the statistical effect. A similar situation will apply to the so-called transitional regions, whose GDP per capita is slightly below 90% of the Community average. As a result of the statistical effect,

the transitional regions will move from this category to more developed regions, which will naturally involve a reduction in support.

The future shape of cohesion policy for 2021-27 will depend on the compromise reached between the Member States. The accession of the Central and Eastern European countries to the EU has resulted in an increase in the number of net beneficiaries of the EU budget, with an almost unchanged number of net contributors. In addition, the financial and debt crisis has increased pressure on the national budgets of the Member States. Therefore, it is very probable that further intensification and consolidation of the preferences of the net payer countries will take place in favour of lowering the size of the EU budget, with simultaneous dispersion of the budget preferences of the net payer countries (Grochowska, Kosior, 2016, p. 7).

The issue of limiting the cohesion policy to the countries most in need also returns. Already in 2003, representatives of the British government called for financially stronger countries to conduct their own regional policy in the face of the enlargement of the European Union to the East and to resign from EU funds. These countries should finance regional policy from their national budgets, while EU support should focus on the countries and regions most in need. This would not only reduce the absolute amount of spending on cohesion policy, but also increase the responsibility of Member States for their own regional policy (Busch, 2004, p. 76).

Another option is also to concentrate resources on investment in human and physical capital and institution building. Such investments have the greatest impact on economic development. This solution was proposed as early as 2003 by a group of experts in the so-called Sapir report. The growth of regional disproportions should be hampered by actions taken at the national level, while aid should be focused on the least developed countries and regions. Extending regional policy to a large number of regions in all Member States should be abandoned in favour of concentrated support for the economies of less-developed countries. (Sapir et al., 2003, pp. 160-163).

#### **4.2. Competition from other areas of EU policy**

Although there has been a steady increase in the importance of European cohesion policy since its inception, as measured by the share of expenditure from the EU budget, this trend may be halted in the near future. The proposal for a new budget submitted in May 2018 assumes a reduction in expenditure on cohesion policy and agricultural policy by approximately 5% (European Commission, 2018).

The new budget proposal provides for an increase in expenditure on measures relating to border protection and security, as well as a doubling of expenditure on the Erasmus+ programme and the European Solidarity Corps. In addition, the EU budget includes funding for the European Development Fund, which today is the main tool for financing development cooperation with African, Caribbean and Pacific countries, and previously constituted an international agreement.

In view of the increase in migratory flows and the high threat of terrorism, the European Union is unlikely to save on security. In the area of migration and border surveillance, a significant increase from €10.6 billion in the current programming period to €30.8 billion for the period 2021-27 is foreseen. In particular, two funds will be supported: Asylum, Migration and Integration Fund (€9.2 billion) and Integrated Border Management Fund (€8.2 billion). An even more spectacular increase is proposed in the area of security and defence, with expenditure set to rise from EUR 2 billion to EUR 24 billion. Most of this money will be provided by the European Defence Fund (EDF) (European Parliament, 2018).

### **4.3. Reaction to climate changes**

Global climate change is becoming a reality. Human activity has caused global temperatures to rise by about 1<sup>0</sup>C compared to pre-industrial times. The changes affected many ecosystems, both marine and terrestrial. Europe is experiencing an increasing number of droughts and violent events – floods, hurricanes and hail. According to experts, the continuation of human activity on the current scale could lead to a continued increase in the average temperature of the Earth by a further 1.5-2<sup>0</sup> C in the period from 2030 to 2052 (IPCC 2018, pp. 6-7), which could lead to a climate catastrophe.

The Member States of the European Union are aware of these risks and therefore the increased emphasis on action to prevent or mitigate climate change under the cohesion policy seems obvious. Increased spending on climate objectives should therefore be seen not as pressure from lobby groups, but as an objective necessity. The European Union has committed itself to implementing the Paris Agreement of December 2015, in other words, to limiting the increase in global warming to the level below 2<sup>0</sup> C in comparison with the pre-industrial period.

Environmental investments have long played an important role in the European Union's cohesion policy. After the creation of the Cohesion Fund, it was decided that it would provide financial support for projects in the fields of the environment and trans-European networks with respect to transport infrastructure. In addition, many environmental actions were also supported by the European Regional Development Fund. In the future funding period, expenditure in this area has a high chance of relative increase. In the Regulation of the European Parliament and of the Council on the European Regional Development Fund and the Cohesion Fund of 29 May 2018, the area of environmental protection and climate change mitigation was considered a priority. Furthermore, it was agreed that the second objective of cohesion policy, i.e. "More environmentally friendly, low-carbon Europe..." will consume at least 30% of the funds in less developed and transitional regions and 85% of all funds in more developed regions should be devoted to investments under Objectives 1 and 2.



#### **4.4. Enlargement of the European Union to include the Western Balkan countries**

Another major challenge for the European Union's cohesion policy is related to the extension of the group of six countries known as the Western Balkans. These include: Serbia, Montenegro, Northern Macedonia, Albania, Bosnia and Herzegovina and Kosovo. These countries are at different stages of the process of integration with the European Union, which is most advanced in the case of Serbia and Montenegro, as they have already started accession negotiations and have managed to complete them in several thematic areas. At the end of 2019, Albania and North Macedonia will also begin accession negotiations. Bosnia and Herzegovina and Kosovo are considered potential candidates and their path to membership will be much longer.

At present, the date of accession of these countries is not known, although the most advanced countries plan to do it in 2025, so accession would take place in the next programming period. This will depend both on the readiness of the Member States to accept new members and on the progress of the aspiring countries. It is worth mentioning that Serbia, which is most advanced in terms of negotiations, faces considerable adjustment problems, especially in such areas as the judiciary, the fight against corruption, the fight against organised crime or the normalisation of relations with Kosovo (European Commission, 2019, pp. 3-4).

Whether the enlargement to the Western Balkans countries takes place in the next programming period or a little later, this event will have a significant impact on cohesion policy. Firstly, because these are countries that differ significantly from the EU average in terms of the level of economic development. According to Eurostat data, GDP per capita in Montenegro in 2018 amounted to 47% of the EU average, in Serbia to 40%, in Northern Macedonia to 38, and in Albania and Bosnia and Herzegovina to only 31% (Eurostat 2019). Obtaining funds under the cohesion policy would therefore be an opportunity for these countries to develop faster and to catch up with the civilisation backlog.

Secondly, there have been many political, ethnic and religious conflicts between these countries in the recent past, which have not even today been resolved. The promotion of cross-border cooperation under the cohesion policy would undoubtedly help to gradually "heal wounds" and bring about reconciliation in this fragile area (Greta, 2013).

### **Summary**

Cohesion policy is currently one of the most important policy areas of the European Union. Since its inception, it has evolved as a result of successive enlargements, changes in the economic and political situation in Europe and political preferences. These changes are visible in the current programming period and are also inevitable in the next period.

United Kingdom exit from the European Union will be an event of crucial importance for the cohesion policy. The Community will be abandoned by a country that has played an important role in the creation of regional policy and has been an important net contributor throughout its membership. Brexit will not be compensated for by the potential accession of the Western Balkan countries, as these countries represent a lower economic potential than the United Kingdom and, in addition, are at a much lower level of economic development.

It should be recognised that changes to cohesion policy have been forced by factors that cannot be ignored by the European Union. For this reason, the progressing climate change, the growing terrorist threat and the intensification of migration flows have been reflected in the proposals for a new financial framework. It is currently impossible to determine whether the European Union will cope with the challenges of the future. This will depend on the intensity of the phenomena, as well as on the skilful formulation of operational programmes.

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