Development policy in the age of austerity - result-orientation, effectiveness and sustainability

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Abstract

The development policy of the European Union, the Cohesion Policy is changing dramatically from a mere solidarity instrument to an investment policy and one of the most important questions is: is it still regional policy or not? This paper examines the effects of different types of public investments and the different institution systems implementing cohesion policy and also the cohesion policy regulation proposals in progress. The aim of this paper is to analyze the effect of the new approach of the cohesion policy on the decentralization and on the regionalization. The findings showed that the new regulation will rather push centralization forward.

Introduction

In the further phases of the economic crisis when the economic and governmental actors are consulting continuously about the direction to follow, an important question is how to use the limited resources available in the most efficient and sustainable way, especially the sources aimed for development. **But what is most needed? What is the best and most effective way promoting economic development and territorial and social cohesion by using public money?**

There are different economic-theoretical approaches to the effects and growth effects of development programs. Macroeconomic models assess the potential **impact of public investments** on growth, often differentiating between **hard and soft forms of investment**. All models estimate positive growth effects but the size of the benefits and their distribution over time are aspects that are strongly dependent upon the model used and the assumptions regarding the behavior of the management. Estimating the growth effects of EU cohesion policy poses a number of methodological challenges. A question of the ensuring of the effectiveness of the use of funds is what and how we measure, evaluate. The assessment of impact of public investments and of EU cohesion policy is controversial; the judgment about necessity, utility and sustainability is not easy. The assessment of development policy interventions and the question of successful absorption of development funds shifted clearly towards stronger enforcement of aspects efficiency and effectiveness.

Public Investments have a growth potential, but their **effectiveness is often undermined** by management failures and by "wrong investment decisions" in the sense that either the theme of intervention or the sector or the place or all of them are not capable of delivering the expected result: it is needed to interpret regional inequality trends, combined with an analysis of their impact in particular places.

Currently the preparation of the new 2014-2020 multiannual financial framework period is taking place in all areas: not only the budget-negotiations, but also the sectorial legislation, such as the **establishment of the new system of Cohesion Policy** is in progress. The rules are being formed in the spirit of a new approach, **result orientation** will become the main goal which requires a change of attitude in the operation of the institution system. Alongside the consideration of the planning and programming tasks there occurs also the question, what kind of institution system would be necessary for the implementation tasks, and whether it is necessary and if yes, what kind of change of the currently existing organizations would be needed and what factors would influence the structure of the cohesion policy's implementation institutional system. **Cohesion Policy is changing dramatically from a mere solidarity instrument to an investment policy and one of the most important questions is: is it still regional policy or not.**

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What is the best and most effective way of promoting economic development and territorial and social cohesion by using public money?

The effectiveness of public spending has always been an important issue in the history. In the current crisis it must be very carefully considered how to divide the scarce resources, in what areas should cuts be made and in what areas to invest and what the effect of the public spending is. Public spending must be accompanied by steps to strengthen the efficiency and targeting of these outlays. There is significant scope to make existing spending more effective in fostering development by reallocating it to inputs that are most needed. The question is what is needed, where the public spending provides the best results (value for money principle). However, for the examination of the results also arises the question whether we look at them in the short or long term and on which territorial level.

Of course it is also important to define what constitutes development. There is a long-running dispute concerning the definition of development, so not surprisingly there are various different definitions in the various encyclopedias.
According to the classical production function approach, by raising the three components of GDP - the amount of capital and labor and total factor productivity – we get more welfare. Following this approach we can also categorize a variety of development interventions: infrastructure measures enhancing state and/or corporate capital, employability and productivity-enhancing R & D and training interventions. The intervention logic from social needs lead down economic, social and environmental objectives, to which they provide tools and sources. The results of use of resource and the intended and unintended effects change the socio-economic environment. The EU cohesion funds essentially finance public tasks[2].

In Europe at Community level the cohesion policy provide a framework for the use of public funds for development, which sources give a significant portion of Community expenditure. In some Member States – depending on the level of developmentand with different funding rates - these EU cohesion funds are financial resources of the development and in the next period with shrinking budgetary resources available it will become even stronger pronounced. As a consequence, it would be entirely justified to consider where and how these resources exert their effect, and how to make the use of them more efficient and effective.

1. The economic interpretation of cohesion policy

Cohesion policy has always focused on bridging regional imbalances that result from the integration process by promoting economic development and social cohesion with investment in structural changes. Cohesion policy aims to increase the economic performance of the region, in particular on GDP, employment, productivity, investment, and the balance of foreign trade. There is a significant amount of public money for the policy used – in the period 2007-2013 a total of EUR 347 billion financial resources of cohesion policy provide considerable support to public investment in the EU Member States and regions.
Both the competitiveness and convergence are among the developments objectives and there is ongoing professional debate how they relate to each other. However, the cohesion policy is the policy framework for the European solidarity in which the structural funds and as the Cohesion Fund are used for the implementation. In the recent period the economic and financial crisis has drawn the attention to the cohesion policy as an accelerating tool in the context of economic recovery.
Cohesion policy is investing in the real economy. About 70% of the complete 2007-2013's budget is earmarked for investments to be implemented for the four priority areas of the EU's growth and jobs strategy (employment, business, infrastructure and energy, research and innovation).

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[2] The public tasks based on the theory of public goods, according to which for some reason certain 'products' production would be lower only by the private sector as if there is government intervention too (eg, due to asymmetric information).

1. **Figure**: **Intervention areas: summary of five headings (in % of total)**[3]

Memberstate	industrie and service	human ressources	infrastructure	R+I	technical assistence
BG	8,36	20,89	62,50	4,67	3,58
CY	14,99	20,45	50,95	10,03	3,58
CZ	8,39	15,56	61,09	11,58	3,58
DE	23,12	22,43	31,07	20,83	2,56
EE	8,04	10,87	62,31	16,75	2,04
ES	12,10	21,54	50,47	14,74	1,15
GR	6,83	21,53	63,52	5,69	2,42
HU	13,18	15,12	61,92	5,91	3,87
IT	16,54	18,22	54,80	8,60	1,83
LT	8,06	13,45	62,23	13,26	3,00
LV	4,13	11,49	67,81	14,07	2,51
MT	14,40	12,82	65,96	5,30	1,52
PL	7,81	13,67	63,00	11,94	3,58
PT	10,47	32,22	40,78	13,60	2,93
RO	8,95	18,62	65,19	3,65	3,59
SI	9,01	15,82	54,42	18,65	2,09
SK	5,43	11,75	70,05	9,32	3,44

This focus is crucial as these priorities can contribute to a faster recovery and improvment of the competitiveness of the EU. With the investment inkey infrastructures, production capacity of enterprises and human capital the cohesion policy in the short term stimulate domestic demand, while maintain a sustainable medium-term direction Thus it plays an important role in restoring confidence in the real economy.

The EU's cohesion policy has a regional character, namely: the regions are considered as territorial units, not as whole countries (except for the Cohesion Fund). With this it will be possible not only to support poorer countries, but also in developed countries the otherwise serious structural problems of the regions can be supported as well, as to mitigate in all Member States the center-periphery differences. The eligibility of various funds is based on the development of the NUTS 2 region[4], and in the regulation the level of development determines the state aid intensity[5] granted for undertakings as well.

The *development policy priorities* set by Member States depend on the existing regional disparities and other factors (eg, social preferences, the distribution of power within the country, the regional nature of the challenges and the available financial resources ... etc). But the policies aimed at reducing inequalities gradually shifted towards

[3] Source: DG ECFIN

[4] The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of collection, development and harmonisation of EU regional statistics, of socio-economic analyses of the regions and framing of EU regional policies.

[5] Aid intensity is measured as the amount of aid in relation to the cost of invesments of the projects that receive the aid. There is a maximum percentage (upper limit) of the eligible costs which can be paid in a given area as support for enterpreuneurs.

policies aimed at strengthening the regional and national competitiveness, which focus on the exploitation of regional potentials to contribute to national growth.

The regional policy in the last ten years is characterised by a kind of shift perceived in the direction of support of the endogenous development[6].

With the adoption of the Europe 2020 Strategy[7] a new strategic framework was born also for the implementation of cohesion policy. ***Most of the areas of cohesion policy interventions are consistent with the priorities and objectives of the new strategy. The key question is what kinds of logic would be in line with the implementation of the interventions, and what would be their added value to the positive socio-economic change.***

In the draft regulation of the cohesion the Commission proposed a set of 11 thematic objectives[8] directly linked to the priorities of the Europe 2020 strategy. Member States and regions would need to concentrate EU and national resources on a small number of priorities - according to their specific challenges - from the established menu of thematic priorities in the regulation. Depending on the amount of Community funding involved, Member States and regions would be obliged to focus on more or less priorities, some of them possibly being obligatory, moreover, the Commission has defined a certain percentage of funds to be earmarked for specific purposes too. There are concerns about the thematic concentration requirements from the start, claiming they are excessive and do not offer the flexibility needed to address the diverse realities and needs of the regions. **But what is most needed? What is the best and most effective way to promote economic development and territorial and social cohesion?**

2. Intervention areas and evaluation of the impacts

The Commission tries continuously to evaluate the usefulness of cohesion policy funds; however the evaluation is significantly more difficult because of the differentials linked to decentralized programming and execution, and the lack of uniform methodologies and data. In addition, cohesion policy is only one factor in a complex system: the macro-economic developments, changes in technology, individual and corporate behavior, all have an impact on economic, social and environmental progress.
Different methods can be used to complete assessment tasks to receive a more detailed picture of the development, such as examining spatial statistics, output indicators, control data, ex-post cost-benefit analysis, macroeconomic models[9] and models showing the effects of changes[10], case studies[11] that help the Commission and the Member States to work in this aereas.
The commonly used methodologies measuring efficiency of development interventions:

- micro-econometric evidence-based impact assessment[12]
- models based on macroeconomic data.

[6] Yuill, D., Ferry, M. and Vironen, H. (2008), New Policy Frameworks, New Policy Approaches: Recent Regional Policy Developments in the EU and Norway, EoRPA Paper 08/1, University of Strathclyde.

[7]Europe 2020 is the European Union's ten-year growth strategy, five key targets have been set for the EU to achieve by the end of the decade. These cover employment; education; research and innovation; social inclusion and poverty reduction; and climate/energy – basic infrastructure development does not appear as a goal!

[8] investments in research, technological development and innovation; information and communication technologies; competitiveness of SMEs and the agricultural sector; low-carbon economy; climate change; environmental protection; sustainable transport; employment; social inclusion and combating poverty; education and training; institutional capacity and efficient public administration

[9] The European Commission has applied two macro model (HERMIN and QUEST) and a model for transport investment (TRANSTOOLS).

[10] Such a model has been developed and applied by 6 Member States: Austria, Denmark, the United Kingdom, Poland, Germany and Italy

[11] To evaluate the ERDF operation in 2000-2006 105 detailed case studies have been dealt with and approximately 29 500 and 382 program monitoring indicators were analyzed. For the ESF ex-post evaluation 49 case studies were carried out and from 238 programs more than 2000 intervention were examined.

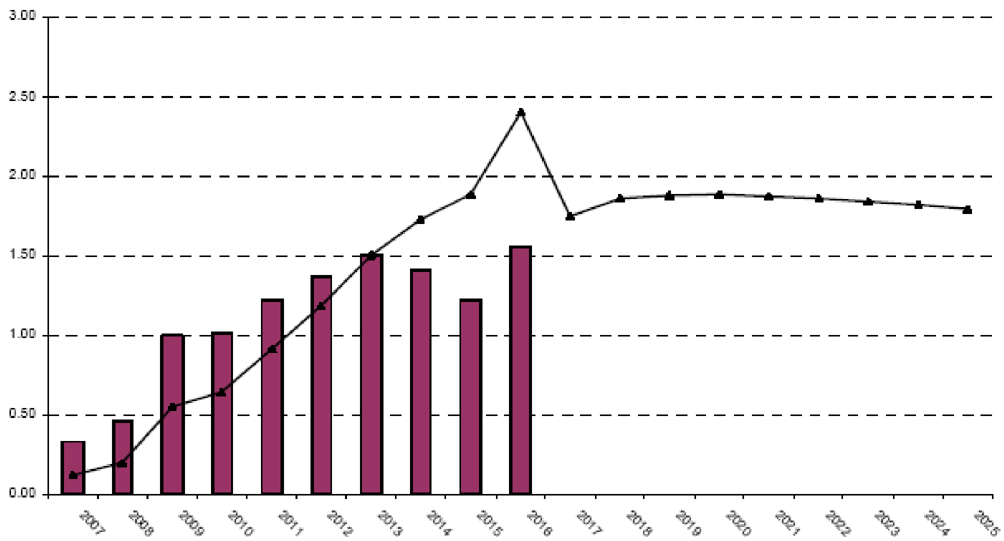
[12] "More plausible", but generally only capable of measuring the direct effects

By now a wide variety type of models[13] have been developed, which are suitable for different types of questions. However, it should be recorded that the models do not measure the impact of the policy, but rather model it. The HERMIN[14] and QUEST[15] used by Commission starts from different assumptions of the operation of economic forces; however the combination of the results - when and if they are of the same direction – may get more reliable operation.

The effective channels of medium-and long-term economic impact of EU cohesion policy are the following:

- Support for broadly defined public infrastructure investments;
- Support for private investment increasing the modern forms of physical capital;
- Support for investment in human capital, ie the increase labor productivity;
- Support for long-term scientific research, in order to increase the productivity of all factors of production.

2. Figure: Cohesion spending on infrastructure in the "new" Member States, percentage of GDP and GDP impact[16]



The real convergence required to remove barriers, such as underdeveloped basic infrastructure or high-risk economic activity. It is clear from the conclusions based on the empirical analyzes that development of roads and

[13] To study the impact of cohesion policy the researchers used a variety of models: econometrics macro model (HERMIN model - ESRI 2002), traditional macro CGE model (ECOMOD model - Bayar 2007) or DSGE approach (QUEST III - Ratto, Roeger and In't Veld 2009). The properties of the model used by the National Development Agency (GMR-Europe model system - Varga, Járosi and Sebestyén 2009, Varga, Pontikakis and Chorafakis 2010, Törmä and Varga, 2010) is closer to the HERMIN model, with the difference that the former take also the regional dynamics into account.

[14] macroeconomic model with neoclassical supply-side characteristics, specifications: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2006/wp3_hermin_aggregate.pdf

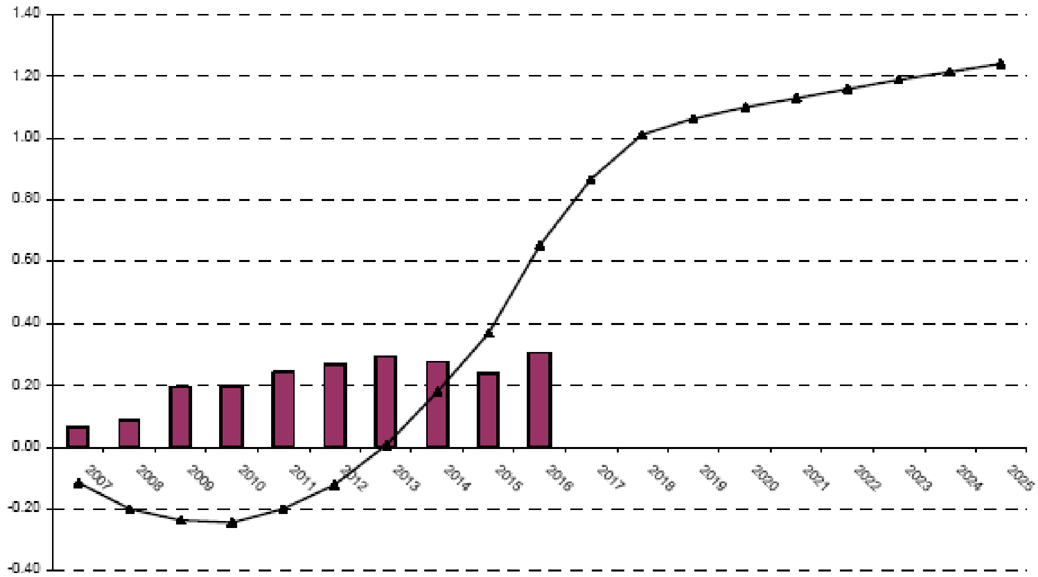
[15] new-keynesian micro-based dynamic general equilibrium (DGE) model with endogenous growth, description: mikroalapú dinamikus általános egyensúlyi (DGE) modell endogen növekedéssel, leírást lásd: http://ec.europa.eu/economy_finance/publications/economic_paper/2010/index_en.htm

[16] Varga, J., in 't Veld, J. (2011), "Cohesion Policy spending in the New Member States of the EU in an endogenous growth model" , Eastern European Economics, 49(5), pp. 29-54.

investment in human capital investment - under assistance from the cohesion policy on economic regions - exercise the most powerful influence on the pace of convergence between EU regions[17].

<u>However, development of the basic infrastructure does appear neither in the EU 2020 strategy objectives nor in the thematic concentration</u>.

3. Figure: Cohesion spending on human capital in the "new" Member States, percentage of GDP and GDP impact [18]



Analogue convergence mechanism may affect the human (labor) capital accumulation[19]. Since differences in human capital stocks and in the labor force are determining the level of development of the regions, the use of EU instruments for development of labor-capital could significantly speed up the convergence of these territories. Accelerating investment however, requires in the short term a restriction on the consumption and with the modernization of physical capital[20] a loss in actuality of educations can be associated, which may cause a decline in real wages and (potentially) the increase in unemployment. One of the aims and functions of the cohesion policy is to facilitate "surviving" the transitional period of modernization for the EU's poorer countries and regions.

Most of the theoretical models as well as the empirical findings suggest however, that the convergence in human capital and in physical capital accumulation has a similar nature: the higher the level of development of the region, the more difficult and less efficient further increases the investitions[21] become.

In accordance with this in the assessment of the previous 2000-2006 period Hagen and Mohl[22] come to the conclusion, that under the first objective - so in the less developed regions – the payments supported the increase of the regional economic growth, while under the other objective (2 and 3) – in developed regions and european territorial cooperation – the used sources are not visible and can not measure any positive economic impact.

[17] „ Poland's economy reaction on structural funds in the period of 2007-2013 - conclusions for Poland", Instytut Badań Strukturalnych, 2007.

[18] Varga, J., in 't Veld, J. (2011), "Cohesion Policy spending in the New Member States of the EU in an endogenous growth model" , Eastern European Economics, 49(5), pp. 29-54.

[19] Mankiw, G.-Romer, D.-Weil, D. N. (1992): A Contribution to the Empirics of Economic Growth. Quaterly Journal of Economics, 107, 2: 407-437.

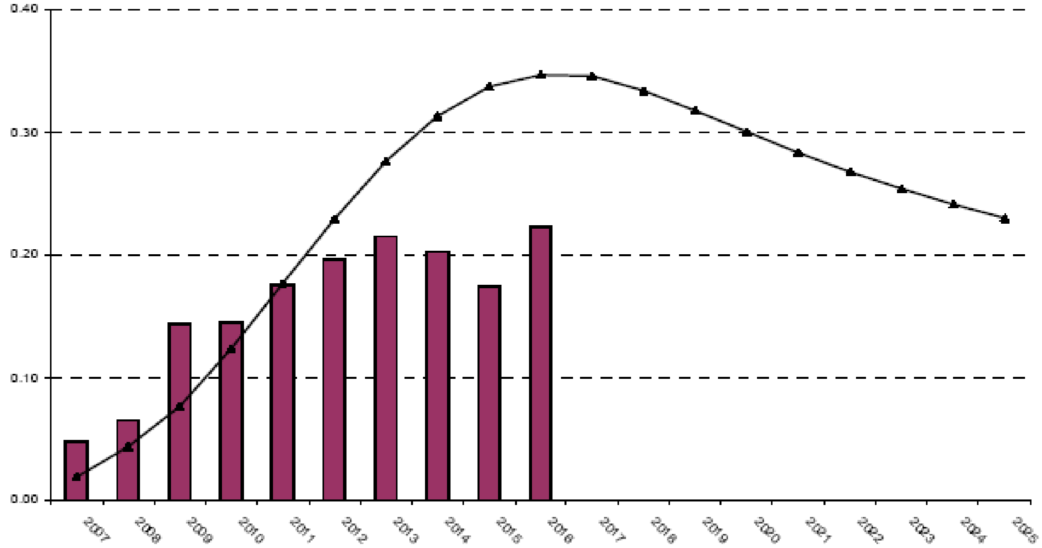
[20] Greenwood, J. - Hercowitz, Z. – Krusell, P. (June 1997), "Long-Run Implications of Investment-Specific Technological Change," American Economic Review v. 87, n. 3: 342-362.

[21] Bils, M. – Klenow, P. J. (2000): Does Schooling Cause Growth? American Economic Review. 90: 1160-83

[22] Mohl, P. and Hagen, T. (2010): Do EU structural funds promote regional growth? New evidence from various panel data approaches, Regional Science and Urban Economics 40.:353-365.

Nevertheless, the authors also indicate that the impact on growth does not occur immediately, but a 2-3 years delay can be shown.

4. Figures: Cohesion spending on R&I in the "new" Member States, percentage of GDP and GDP impact [23]



Some of the human capital growth endogenous models[24] assume that for the achievement of the appropriate level of development of the education system it is a prerequisite to start-up the convergence process, but this process is not sustainable in long term. The *technological dimension* is crucial on long-term: full convergence requires not only the inter-regional equalization of industrial elements, but the standardization of the used technology quality as well. In view of prevailing concepts in the framework of growth theory, the technological development is the ultimate source of global economic growth in long-term.

The technology gap theory suggests that if the grant is intended for technological progress, the use of technologies developed elsewhere may hasten the process of real convergence of poorer regions, because the adaptation or imitation of foreign technology is cheaper than the invention[25]. In addition, it is generally accepted that the research and development as well as the use of high technologies in industry and services contribute to productivity growth. There is also a positive correlation observed between the medium-term economic growth and R & D spending.

The the empirical evidence on real convergence phenomenon is not clear[26], but they refer to the temporarily decrease of development differences of regions of Member States, or perhaps of certain areas of relatively homogeneous countries. Both models used by the European Commission's show the result, that cohesion policy expenditures result in positive economic impacts: but smaller short-term effects are indicated by the QUEST than by the HERMIN. This is partly explained by the fact, that the focus of the research, the model type and the underlying assumptions of the two models are different.

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[23] Varga, J., in 't Veld, J. (2011), "Cohesion Policy spending in the New Member States of the EU in an endogenous growth model", Eastern European Economics, 49(5), pp. 29-54.

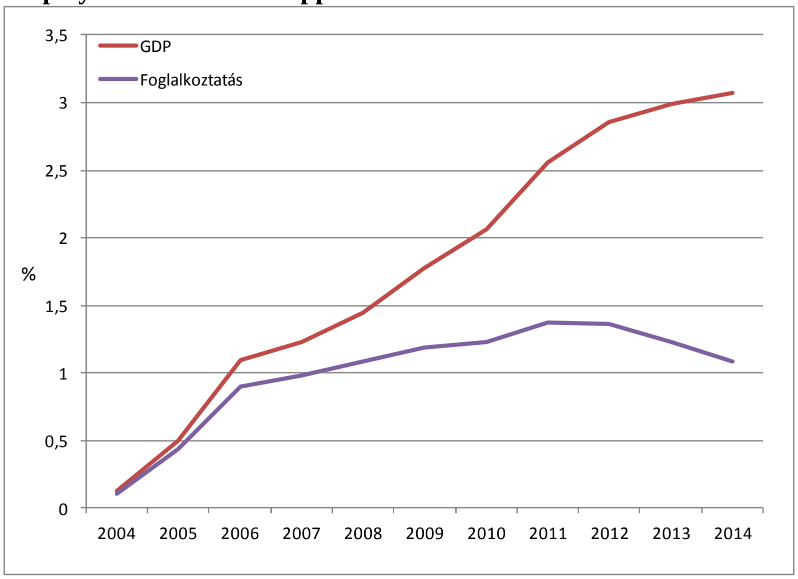
[24] Benhabib, Jess & Spiegel, Mark M., 2005. "Human Capital and Technology Diffusion,"Handbook of Economic Growth, in: Philippe Aghion & Steven Durlauf (ed.), Handbook of Economic Growth, edition 1, volume 1, chapter 13, pages 935-966

[25] Cappelen, A., Fagerberg, J. and Verspagen, B. (1999): Lack of Regional Convergence. In Fagerberg, J., Guerrieri, P. and Verspagen, B. (eds) The Economic Challenge for Europe. Adapting to Innovation Based Growth (Aldershot: Edward Elgar).

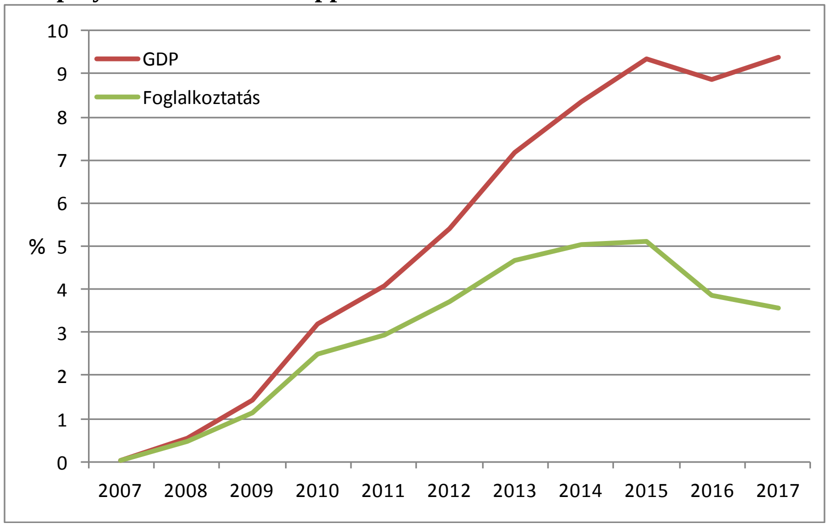
[26] Quah, D. T. (1996): Twin Peaks: Growth and Convergence in Models of Distribution Dynamics. CENTRE FOR ECONOMIC PERFORMANCE DISCUSSION PAPER NO. 280 // Barro, R. J. - Sala-i-Martin, X. (2003): Economic Growth, 2nd Edition

The National Development Agency and the University of Pécs in cooperation carried out an impact assessment survey which showed, that in Hungary in the time of the general economic crisis the cohesion funds have become almost the only driving force of the economic growth and job creation. With the model[27] the relative effects of the use of EU development funds have been studied. The study showed a surplus of 5.5 percent an annual average of GDP to the scenario without subsidies.

5. Figure: The estimated effects of the National Development Plan and the Cohesion Fund (2004-06): additional GDP and employment due to the support[28]



6. Figure: The estimated effects of the National Strategic Reference Framework (2007-2013): additional GDP and employment due to the support [29]



The simulation also shows that the recession, the slow growth and the presence of the support in time do not directly refer to the ineffectiveness of support. It could happen that *without the support this segment of the economy would be in a much worse situation.*

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[27] See detailed description of this model: http://www.nfu.hu/modellezes

[28] Source: NDA

[29] Source: NDA

3. Instituional systems to implement cohesion policy

General conclusion that the Structural Funds are effective in the Member states, that have an appropriate institutional system[30]. Key feature of the cohesion policy is a decentralized implementation system. The Member States are responsible for management of the programs. This includes project selection, control and monitoring - to prevent, to realize and correct any irregularities - and also project evaluation.

Member States should also ensure that the rules of other areas of Community law - ie. Public procurement, state aid rules to protect the environment - are properly applied. The Commission shall ensure that the Member States set up and operate an implementation and control system, which is in accordance with the regulations effective[31]. The program implementation takes place on regional and local levels, so these levels' priorities also influence the project selection criteria. The organizations of the community, national and regional levels work in a shared responsibility system. The primary objective of the community rules[32] in all areas appears in the protection of EU financial interests.

Performing the tasks of managment, certification and monitoring is possible within one organization, but the functions should be ***separated***. There are different approaches in the Member States: in some Member States the different tasks were placed in separate organizations and a number of Member States have different functions within one organization (eg, Denmark, Spain). There also occurs a structure in which the managing authority and the certifying authority functions in one organization and the audit function is set up independently from the previous two authorities (eg, Finland, Sweden). There is also an example where the certifying authority and the audit authority work as separate units of the same entity (eg the Czech Republic, and Slovenia) and the managing authority is separated in an other organization. Finally, the three authorities can work also in different organizations (eg, Austria, Portugal).[33].

It varies also in the Member States how the implementation tasks are ***centralized***: in some Member States one certifying authority operates with all the operational programs (eg Austria, Czech Republic, Denmark, Finland, Portugal, Slovenia, Sweden) in other countries certification authorities are set up by OPs (eg Belgium France, Germany, Italy). There are similar solutions also for audit authorities: sometimes one central audit authority shall carry out the duties of all operational programs (eg Austria), as elsewhere for every program there are audit bodies (eg Germany). In other Member States the audit authority at central level ensures that national operational programs work regularly, while audit authorities work at regional level for the regional operational programs (eg Italy, Poland).

[30] Ederveen, S., H. Groot and R. Nahuis (2006): Fertile soil for structural funds? a panel data analysis, Kyklos 59(1):17-42.

[31] Article 317 TFEU: „The Commission shall implement the budget in cooperation with the Member States, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management.

The regulations shall lay down the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities. They shall also lay down the responsibilities and detailed rules for each institution concerning its part in effecting its own expenditure. .."

[32] In the cohesion policy: Commission Regulation (EC) No 1681/94 of 11 July 1994 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and the organization of an information system in this field, Commission Regulation (EC) No 1831/94 of 26 July 1994 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the Cohesion Fund and the organization of an information system in this field and Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund

[33] Sara Davies, Frederike Gross, Laura Polverari (2008): The financial management, control and audit of EU cohesion policy: contrasting views of challenges, idiosyncrasies and the way ahead, EPRC, Glasgow

The Member State shall designate one or more ***intermediate bodies*** to the managing or certifying authority to carry out some or all of its functions under its responsibility. The delegations are usually made of implementing regulations or contracts by organizing different responsibilities to different organizations. Organizations can be government agencies (ministries, central authorities, regional authorities), public and private companies, non-profit organizations.

7. Figure: Organizations implementing programs in the Member States (except ETE)[34]

Members tate	Total available funding (EUR)	ERDF & CF (EUR)	OP-s	Nr of organizations in the program-implementation	Nr of certifying organizations	Nr of audit organizations
AT	1 276 780 733	680 066 021	9	20	2	1
BE	2 403 876 316	990 283 172	4	6	3	3
BG	6 624 538 988	5 488 168 381	5	7	1	1
CY	579 606 868	492 665 838	1	7	1	1
CZ	26 503 627 152	22 528 083 056	14	24	1	1
DE	26 396 199 001	16 107 961 527	18	90	23	20
DK	509 577 240	254 788 620	1	7	1	1
EE	3 611 579 771	3 011 942 552	2	16	1	1
ES	39 001 563 519	26 600 405 159	23	200+	1	20
FI	2 103 523 445	977 401 980	5	60	1	1
FR	22 690 079 887	8 054 673 061	30	73	1	1
GR	20 172 569 973	15 846 461 042	10	100	1	1
HU	25 049 482 420	21 292 060 049	15	20	1	1
IR	938 897 096	375 362 372	2	16	1	1
IT	44 092 710 694	21 027 307 507	28	50	26	25
LT	7 068 539 664	5 747 186 096	2	14	1	1
LU	85 107 216	25 243 666	1	2	1	1
LV	5 096 599 364	3 979 793 917	2	15	1	16
MT	856 615 354	728 123 051	1	5	1	1
NL	1 968 601 000	830 000 000	4	10	1	1
PL	70 617 533 404	55 514 676 992	20	74	17	17
PT	23 512 385 699	14 899 172 647	10	46	1	1
RO	18 916 024 612	15 528 889 094	5	34	1	1
SE	2 026 189 558	934 540 730	8	1	1	1
SI	3 935 705 031	3 345 349 266	2	8	1	1
SK	11 674 087 288	9 861 016 794	9	24	1	16
UK	11 088 825 121	5 416 019 735	16	23	5	5

[34] Kai Böhme (2010): Regional governance in the context of globalisation, Revised Final Report, SWECO INTERNATIONAL

A substantial part of the risk of implementing cohesion policy comes from the fact that many of the operational programs will be organized in many different systems and with a lot of organizations and with the implementation of a very large number of projects. On the other hand, the implementing rules are generally not plain, clear, detailed and complete at the beginning of the period, so at the time as the implementation issues of interpretation problems occur, they are dealt with legislative changes or sometimes just with Commission's Guidelines, which is a huge difficulty for on-going programs/projects if the previous practice was not in accordance with the new guidelines recommended later.

The establishment and operation of the territorial levels are different in the Member States too: the number of regions and the duties and authorities of territorial structure are different. The question is not only how work is shared between the different territorial levels, but also which organizations (municipalities, decentralized agencies, development councils, and agencies) are addressed to the responsibilities and how these shall function. In fact, the nominal division of roles does not provide precise guidelines for the practice, ie managing authorities and intermediate bodies can be judged depending on the skills of the real content.

A distinction can be made also between the structure of the institutional systems of each Member State according ***how the central level is organized*** and how it operates: with a centralized solution by one central body or managing authorities operated in different ministries, by operational programs independently or in one combined management authority, with the use of intermediate bodies (IB-s by OPs or the same intermediate body for all OP), or without them…etc..

It is important ***how the levels of tasks are structured***: the complexity increases the extra monitoring and reporting system, which may be associated with the articulated complex structure. In addition, the experience has shown that at the lower levels of multi-task operations increases the audit scope and level of detail and this control is associated with a narrow interpretation. This could also be due to the uncertainty of regulatory and law enforcement, which occurs for various reasons. The most significant factor leading to increased scrutiny could be, that while the programming and implementation of cohesion policy is decentralized, the responsibility for the proper implementation is not decentralized - the Member State is responsible for regularity. This in itself brings with it the need for strong control. The multi-level implementation system entails a multi-level controlsystem and monitoring system and increases the administrative costs. In addition, a complex implementation structure can increase the legal uncertainties, which is only counteracted by a strong coordination.

The differences between the programs have a significant impact on how the implementation system is designed. Important factors are i.e. the eligibility of the program, the thematic focus of the program, the financial volume of the program. The more complex the measures of interventions are, the greater is the need for appropriate administrative capacity of both the institutional system and the beneficiary. The relationship between the program area and the regional structure of the administrative and institutional system has an impact on the implementation structure as well. The financial volume of the program and the projects supported also affects the necessary administrative capacity; moreover all programs have general costs that are independent of the size of the program.

It is also important for the establishment and operation of an institutional system, how the use of the EU cohesion funds and national resources are established: in a coordinated way or not and how the delivery system of the two sources relate to each other.

Considering the harmonization of the national regional development systems and the EU cohesion policy implementation system at the international level on the basis of two criteria we meet the following solutions:

- based on the ***cooperation*** of the two institutional systems: integrated - parallel - "mixed" models,
- based on the ***management*** of the implementation: centralized - decentralized - "mixed" models.

In the ***integrated system*** the allocation of cohesion funds takes place through the national decision-making channels. A benefit of the system is that effective and focused use of resources can be assured. Integrated systems also vary between Member States, according to whether the cohesion funds dominate the development of resources (eg, Poland) or contribute to national development resources (eg Germany, Austria).

In the ***paralell institutional systems*** there operate specific decision-making mechanisms for the domestic and for the EU funds separately. In this structure on one hand the results and cost of the various programs are better visible, on the other hand the setting up of a new system and operation of the two systems in parallel have significant additional costs, moreover, there could be problems with the coordination of funds and programs too.

In the ***coordinated (mixed) model*** there are specific decision-making mechanisms for the domestic and for the EU funds, however with the recording of the development priorities and objectives and with other consultation and coordination mechanisms it is building on the existing structure and can ensure the coordinated development decisions. However, in the model there are challenges of matching and problems of parallel administrative capacity too.

8. Figure: Centralized, decentralized and mixed implementation systems

Centralized	Decentralized	Mixed
Denmark, Lithuania, Estonia, Latvia, Slovenia, Slovakia, Hungary, Greece, Sweden, Rumania, Bulgaria, Cyprus, Malta, Luxembourg	Germany, Italy, Nederlands, Austria, Belgium, Ireland	Poland, France, Finland, Czech Republic, Spain, UK, Portugal

In the ***centralized system*** the management tasks are performed by national ministries or other national central organizations with limited decentralization and sometimes with limited partnership too. In most Member States, the central government plays an important role in the implementation of cohesion policy. National ministries supervise the program preparation, the expenditures, the monitoring and evaluation. In addition, in some Member States the role of the national level is very strong: there may be some delegation of responsibility, but the national authorities playing the key role of the management authority define every relevant elements of the implementation.

In the ***decentralized (regionalized)*** implementation system the implementation role and the responsibility for program implementation is given to the regional level. The role of the central government covers coordination, high-level negotiations with the Commission, intergovernmental consultation and evaluation of the "best practices". In the decentralized system there is more emphasis on multi-level governance, which can support the effective program implementation. The objectives can be better defined and the development measures may be enjoying the trust and support of local, regional levels. On the other hand the coordination between levels is an important task and additional cost.

Many Member States seek to ***combine*** the advantages and disadvantages of the two previous system structures. With sectoral and regional programs and with the managing authorities (IBs) and national ministries' matrix-type responsibility system, involving the regional level will be implemented in the development programs. Mixed systems may be also be designed with fixing the enforcement responsibilities for each measurments of the OP to different organizations of specific levels.

Hungary set up a paralell and centralized cohesion implementation system. A centralized system of parallel institutions for national and EU funds management were built; even the management of EU funds operates outside the traditional Hungarian public administration system, with all its advantages and disadvantages. The use of development funds basically followed the sectoral logic, nor the regional coordination, nor the in law defined objectives of the regional balancing prevail. While strengthening the regional level and decentralization was a priority of the program of successive governments until 2010, the regional level institutions could not become substantially stronger. Not only the structure of the operational program has strengthened the central administration level, but also the sructure of the management institutions.

However, the effectiveness of regional policy depends largely on the ***efficiency of the operation of management organizations*** and in general the quality of the functioning of the administrative system. Corruption and discrimination, can significantly reduce the efficiency. Recent research[35] confirms that the quality of governance and public administration of countries, regions also affects the capacity of the efficient and effective use of the cohesion funds. It can be concluded that the cohesion policy works best where the circumstances support the policy[36].

[35] Nicholas Charron, Victor Lapuente and Lewis Dijkstra (2012): Regional Governance Matters: A Study on Regional Variation in Quality of Government within the EU, Working Paper 01/2012

[36] Burnside C. and Dollar D.(2000): Aid, Policies and Growth, American Economic Review 90(4) 847-68.

New tools in the draft legislation of cohesion policy and their effects on the regionalization, decentralization

To boost the performance new conditions are introduced to ensure, that the EU funding will be a strong incentive for Member States to achieve the Europe 2020 Strategy goals and objectives. So-called ***"ex-ante" conditions*** are defined to be met as precondition for use of the the funds, and so-called ***"ex-post" conditions*** that are to be achieved are preconditions of the funding. In addition to performance-based reserving also the failure to reach the milestones - if it is caused by a malfunction of the implementation – may cause the suspension or even the loss of resources.

In view of this it is essential therefore, what kind of the conditions, objectives, indicators are fixed to measure the effectiveness of the programs. For the assessment of the efficiency of the use of the resource it is a question, how and what is measured, evaluated, because the public investment and the impact of EU cohesion policy is controversial and to evaluate the necessity, the utility and sustainability is not a simple task[37].

In the proposed ***new annual clearance and accounts system***, the intermediate payments by the Commission due during the financial year would achieve only 90% of the amount due to the Member State, the remaining 10% will be paid off subsequent to the annual accounts when the full guarantees of the regularity of expenditure is already available.

In general, to implement the proposed in the draft regulation results-oriented system is a complex and difficult task. In addition, cohesion policy in the recent period operates rather by the "process-oriented" approach then by "results-orientation" and the administrative capacity is constantly perceived as a bottleneck to performance. Focusing on results requires a complete cultural shift in the institutional system.

The approach of results-orientation could mean that the beneficiary makes performance-commitments in return for the support, and may decide more flexiblel, - but of course in the regulatory framework - about implementation issues (for what, how and how much to spend in order to achieve results) in the project implementation along, and the institutional system gives less attention to legal compliance and irregularities in financial discipline and accountability. Giving less attention, however, is not allowed in the new cohesion regulation, which is proposed on the one hand requiring the results, on the other hand checking accounts strictly to ensure the regular and efficient use of resources.

With this aim one can fully agree, however, this dual requirement may take the implementation system not in the direction of simplification and flexibility. In addition, the demand of the uniform standards and effective management of this complex system move the structure rather towards centralization, instead of decentralization. The decentralized planning and implementation could be an effective solution because of the knowledge of local circumstances and characteristics, however a strong methodological guidance and coordination by central level is required. In the absence of this a fragmented structure can not provide the desired results.

A ***key issue*** is therefore the appropriate ***planning and programming*** (more important then earlier), which should be consistent with the strategic goals of the Community, the Member States and the regional and local plans[38] with a relevant and manageable system of indicators and this should be combined with an effective, appropriate financial management system.

However, with the regulation proposed 11 thematic objectives and special and strict ring-fencing, it is questionable if the thematic concentration requirements do offer the flexibility needed to address the diverse realities and needs of the regions. From the point of view of the draft regulation, cohesion policy seems to becoming a mechanical exercise.

An other problem appearing with the thematic concentration concerned is the fact, that the “new” Member States have a need for basic infrstracture and despite the fact that evaluations show that support could be effective in this area, it does not appear in the list of the objectives.
In addition, for the first time cohesion policy will be used as an instrument for economic governance, as some ***macroeconomic conditions*** are placed and failure to comply with them can be sanctioned by the Commission with

[37] Nyikos Györgyi (2013): The effects of public development investments, Financial Review

[38] Nyikos Györgyi (2011): Territorial planning and territorial aspects in development policy – possibility, obligation or dream?! Village, City, Region; Regional Development and Planning journals 2011/2. 35-41. pp. Budapest

suspension of part or all of the funds for a Member State. Macroeconomic conditionality has become one of the major elements in discussions on the future of EU cohesion policy. Such conditionality would make the cohesion budget dependent on EU economic governance rules: this would have advantages for economic governance, yet also risks entailing serious disadvantages for the final beneficiaries, the regions and cohesion policy itself.

If not properly managed, macroeconomic conditionality can have a highly negative impact: it would imply that the prospective victim of the cuts would be different from the level of government responsible for economic policy decisions. In addition, under its original conception cohesion funding should primarily be used there where it matters most, i.e., the least prosperous regions, and not necessarily where it can have the best return. In this sense, the application of macroeconomic conditionality sanctions would be detrimental to the solidarity of cohesion policy and its redistributional nature. In certain situations, the sanctions may prove counterproductive. It may happen that the funding suspension could force a Member State to cancel projects or to finance the missing part of the budget on its own. This could lead to the cancelling or delay of other investments or increase public debt, thus further deepening the already an existing fiscal problem.

Conclusion

The cohesion policy is one of the most evaluated community policy in Europe. Over several programming periods the Commission introduced increasingly sophisticated, rigorous and more systematic approaches[39] in the evaluation of policies and programs. This process has several advantages: enhancing the learning process, identifying those elements of the cohesion policy, which add values and information about results and feedback in shaping the political system for strengthening quality, relevance and the impacts of the programs.

Along all these positive effects, evaluation studies could questionably fulfill their mission such as to clearly demonstrate the effects of development resources. Next to the continuous evolution of the assessment activity there is still a limited scope of information about the impact of the programs available, which significantly complicates the assessment of interventions and conclusions.

The EU's cohesion policy was also undermined by the crisis and wide ranging policy reforms were undertaken. The establishments of the cohesion policy rules are influenced also by political considerations, and these do not necessarily point in the direction of result-orientation, and it is either not very clear to what to compare if we talk about efficiency. As a consequence of all this, it seems to be doubtful that for the 2014-2020 budget-period prepared European Commission's cohesion legislative proposals, the thematic concentration defining the objectives and eligibility requirements for use of funds correspond to the effective development intervention areas revealed by evaluations and that the objectives are consistent with the characteristics and the needs of the regions' development goals.

The effective and efficient cohesion policy requires implementing targeted and complementary measures at all political levels. The integrated interventions have to be tailored to the characteristics of the affected areas, because cohesion policy show significantly less effectiveness where the individual spatial situations and problems can not be taken into account[40].

All in all, the sustainability of the effects of cohesion policy can only be achieved, if the development interventions implemented in integrated strategic approach[41]. The ensuring the approach of efficient and effectiv ***and decentralized/regionalized*** cohesion policy seems to be a difficult task under the new conditions.

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