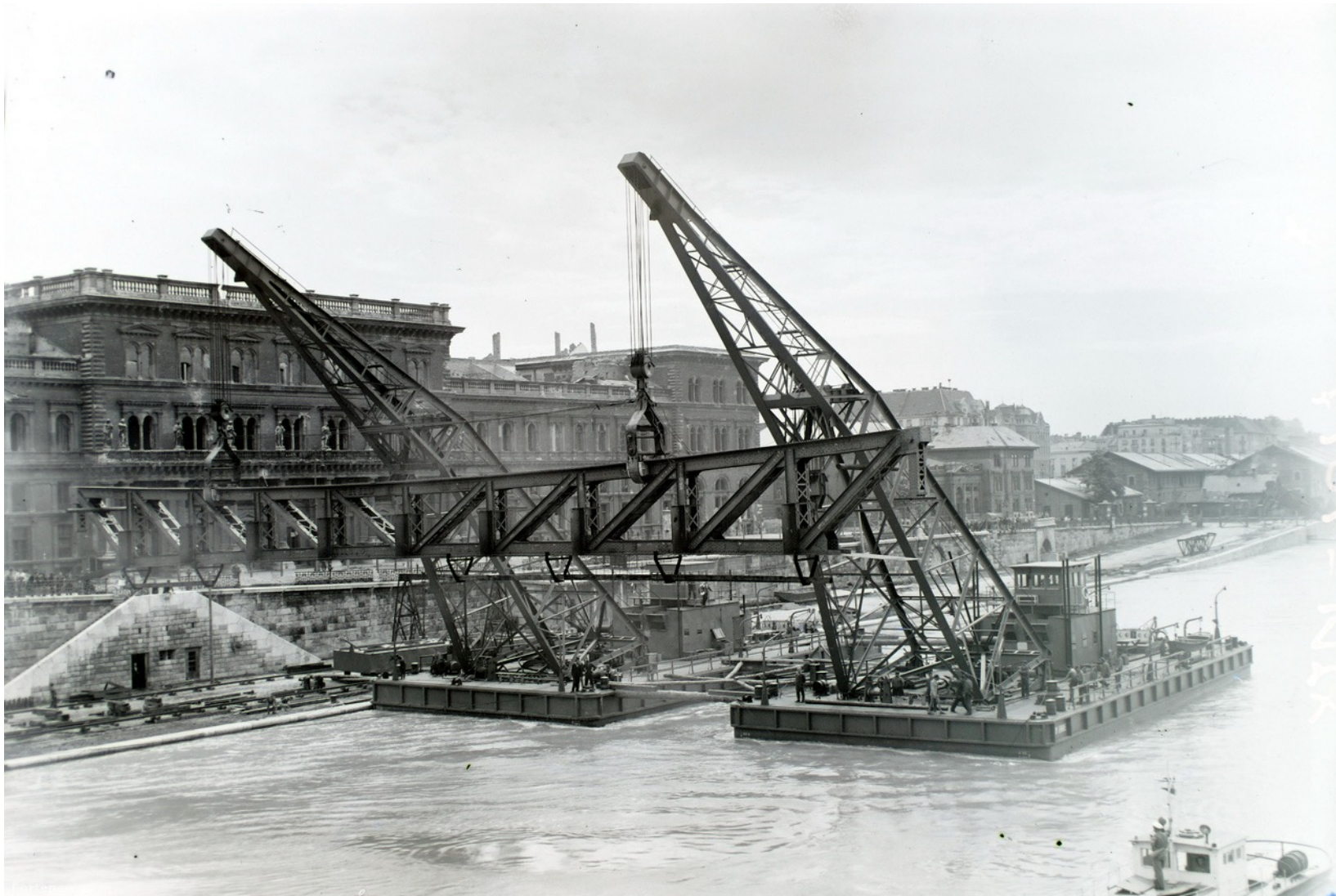


EU Cohesion Policy – long story short

Reszkető, Petra Edina
Budapest Institute



BUDAPEST
INSTITUTE



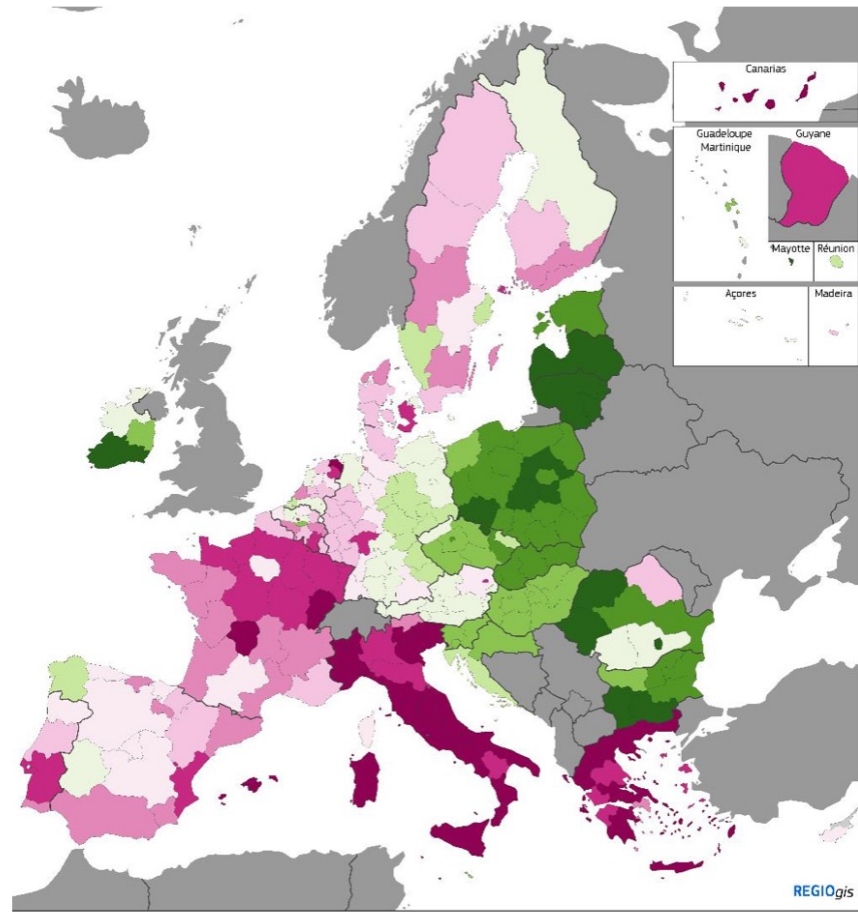
EU cohesion policy – main objectives

Within the EU / across the EU regions –» **Minimizing the:**

- **Territorial differences – e.g. in income (*per capita GDP gap*)**
- Welfare differences – e.g. poverty rate, life expectancy
- Differences in access to good-quality public goods and services – e.g. access to:
 - Public education and early care (local pre-schools & schools)
 - Basic health services (practitioners, local health visitors), or
 - Public transport (for example, to get to the workplace in the closest city in due time by bus)

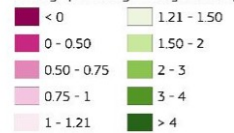
EU cohesion policy – history in a nutshell

- 1957** **Treaty of Rome: economic cooperation (set up of the European Social Fund)**
- 1960-70s** **Push for more coordinated EU territorial policy and cohesion**
in focus: mezzo-level governments (EU regions) and boosting employment, SME investments, investments in public infrastructure (with a special attention to outermost/sparse populated areas)
- 1980s** **Strategic revision and reform, Single Market**
in focus: less developed/poor regions (entry of EL, ES, PT), more budget, multi-annual programming, strategic priorities, better involvement of local/regional partners
- 1990s** **Treaty of Maastricht: economic integration, cohesion, solidarity**
in focus: still, less developed/poor regions, even more budget, measuring progress and results
- 2000-10s** **Lisbon reform: competitiveness, growth, innovation, cohesion**
in focus: classification of *all* EU regions, strategic priorities-driven design, intervention logic (market failure), performance indicators, capacity building & administrative simplifications



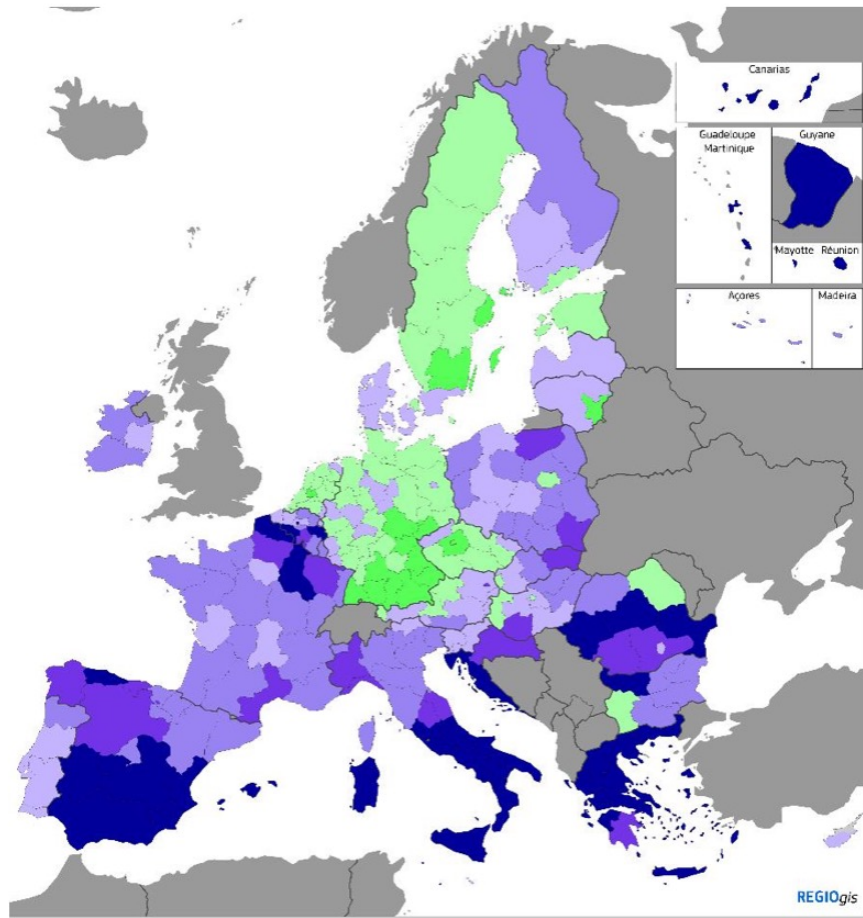
Growth of GDP/head, 2001-2019

Average percentage change on the preceding year



EU-27= 1.21

Source: DG REGIO based on JRC and Eurostat data



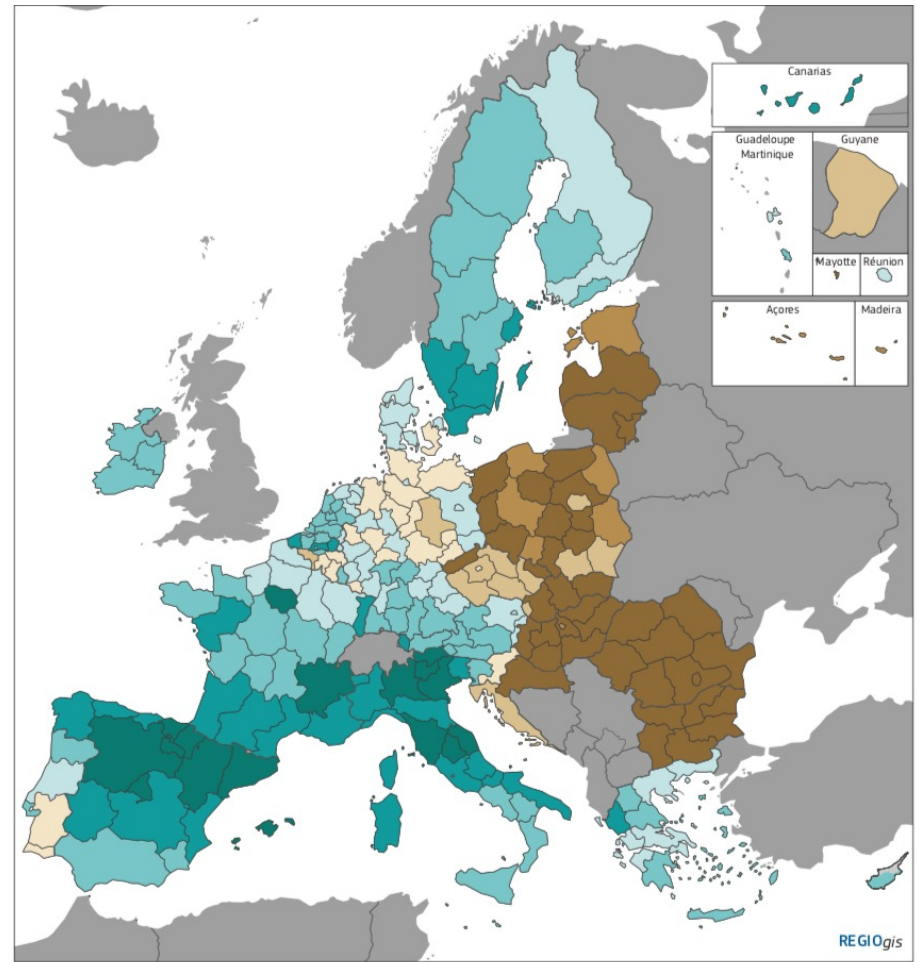
Employment rate (20-64), 2020

% of population aged 20-64

- < 66
- 66 - 70
- 70 - 74
- 74 - 78
- 78 - 82
- >= 82

EU-27 = 72.5
 The employment rate target is 78% by 2030.
 Source: Eurostat (fsd_r_lfe2empr)

REGIOgis



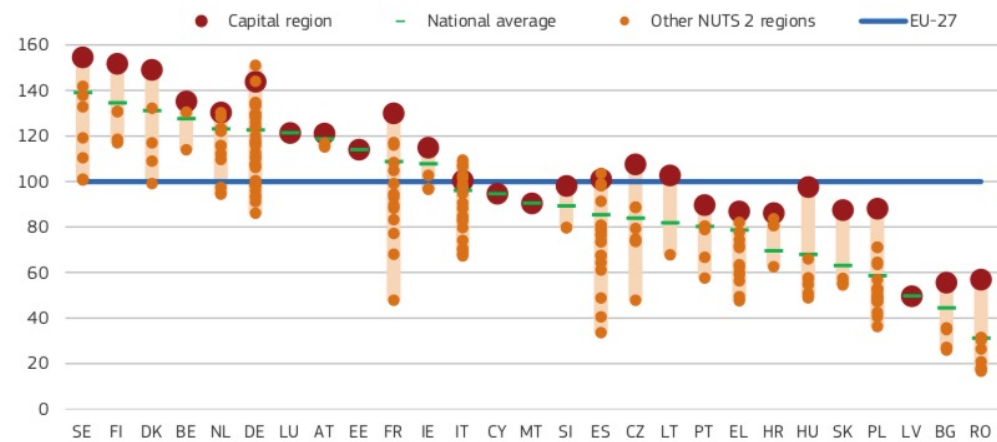
Map 4 Life expectancy, 2019

Life expectancy at birth in years

- <= 78
- 78 - 79
- 79 - 80
- 80 - 81
- 81 - 82
- 82 - 83
- 83 - 84
- > 84

EU-27 = 81.3
 Source: Eurostat (demo_r_mlifexp)

REGIOgis

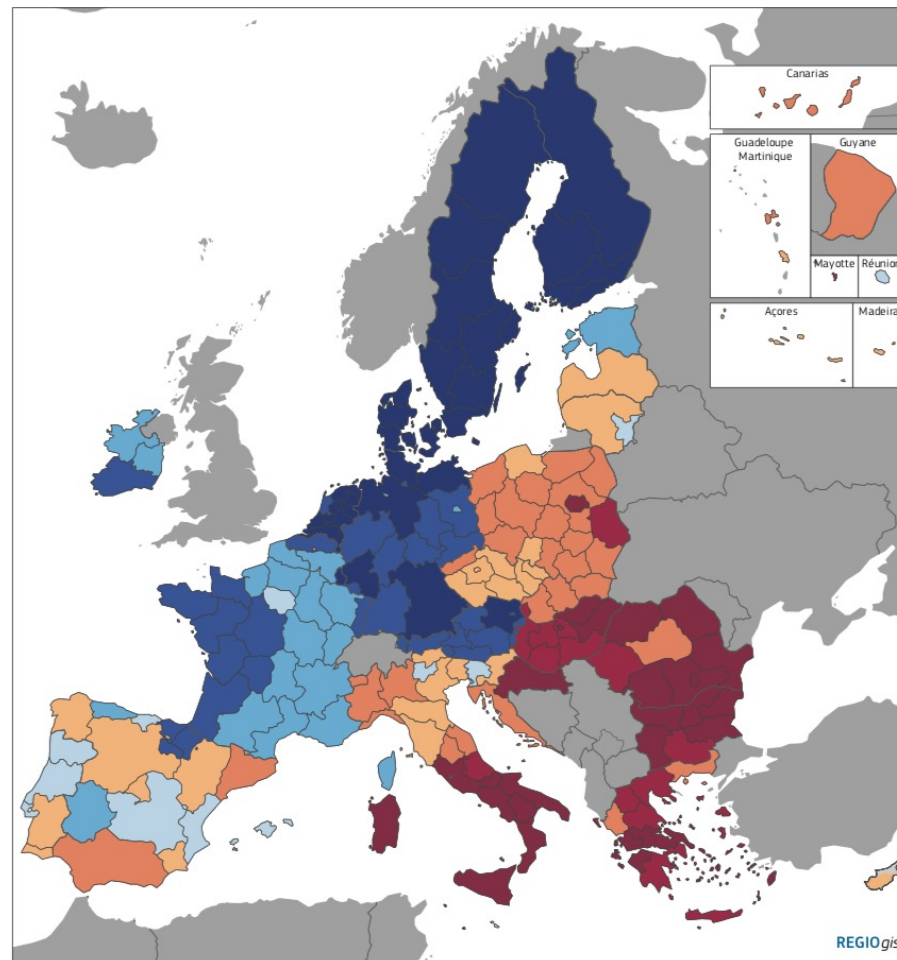


AT, BE, FR: N1

Source: Regional Innovation Scoreboard 2021 (N1/N2), European Innovation Scoreboard 2021 (n0)

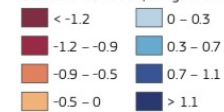


Source: EC 2008



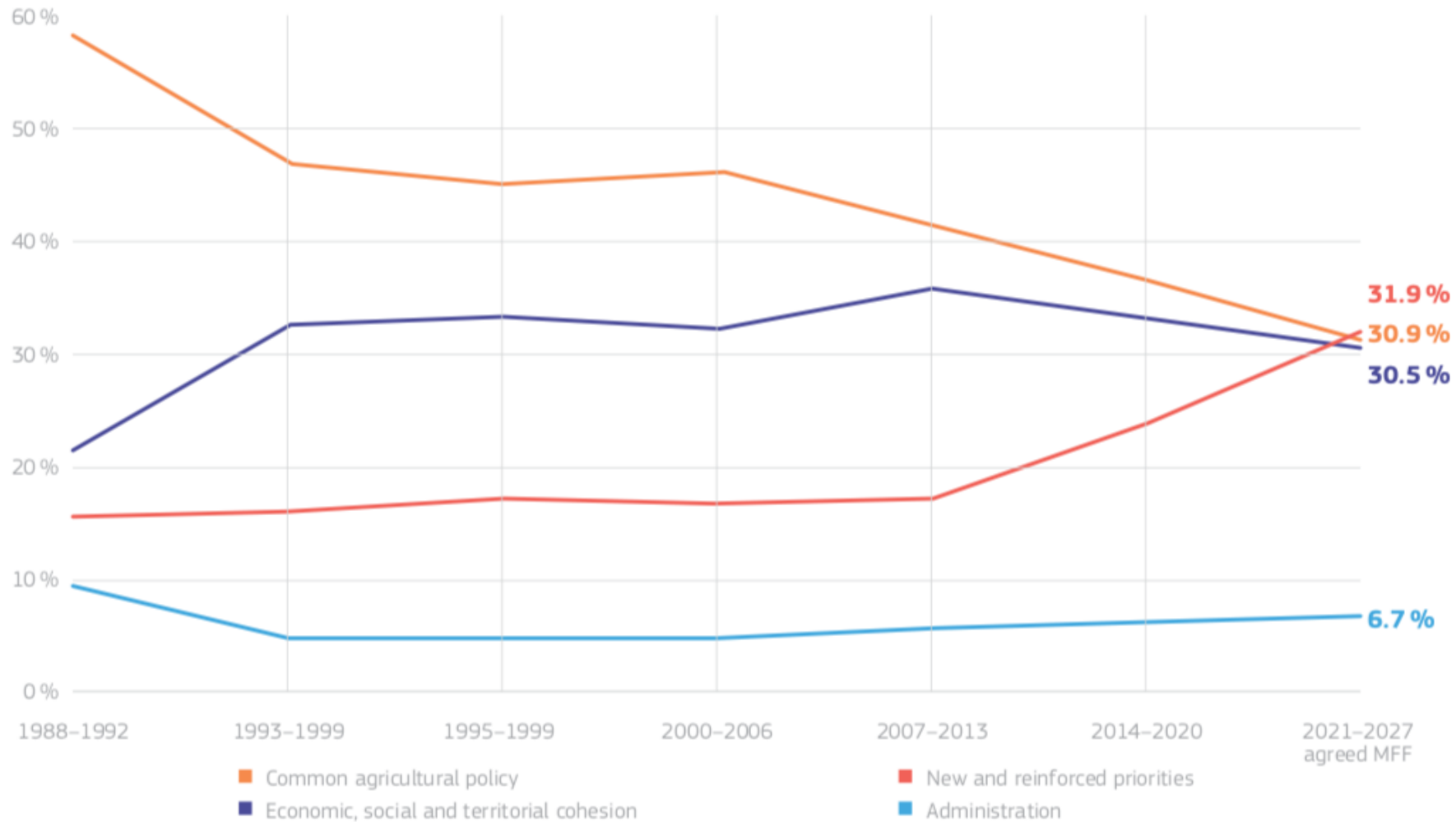
Map 5 European Quality of Government Index, 2021

Standard deviation, range from poor quality (negative) to high quality (positive)

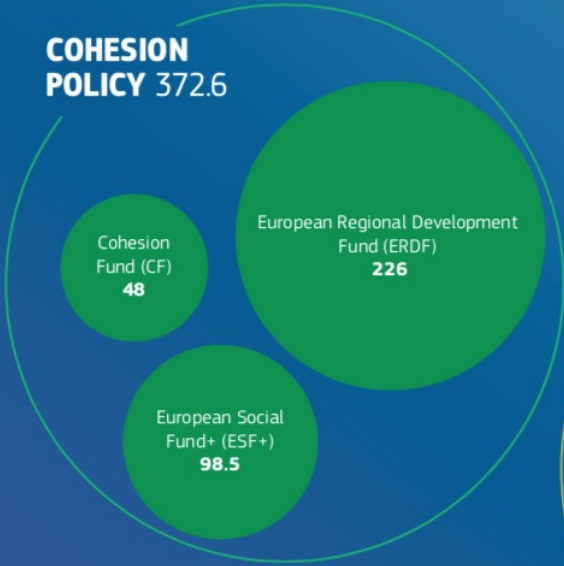


Scores are expressed in z-scores; the EU average is therefore equal to 0. Positive (negative) values reflect higher (lower) quality of government than the EU average. All Member States at the NUTS 2 level. Source: The Quality of Government Institute, University of Gothenburg.

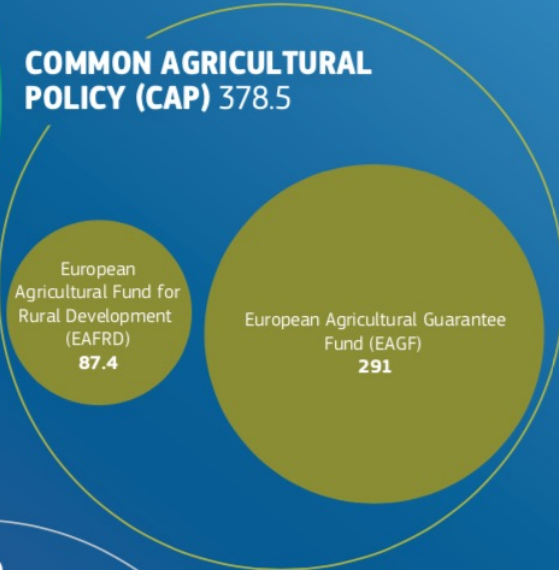
EU cohesion policy – EU budget share



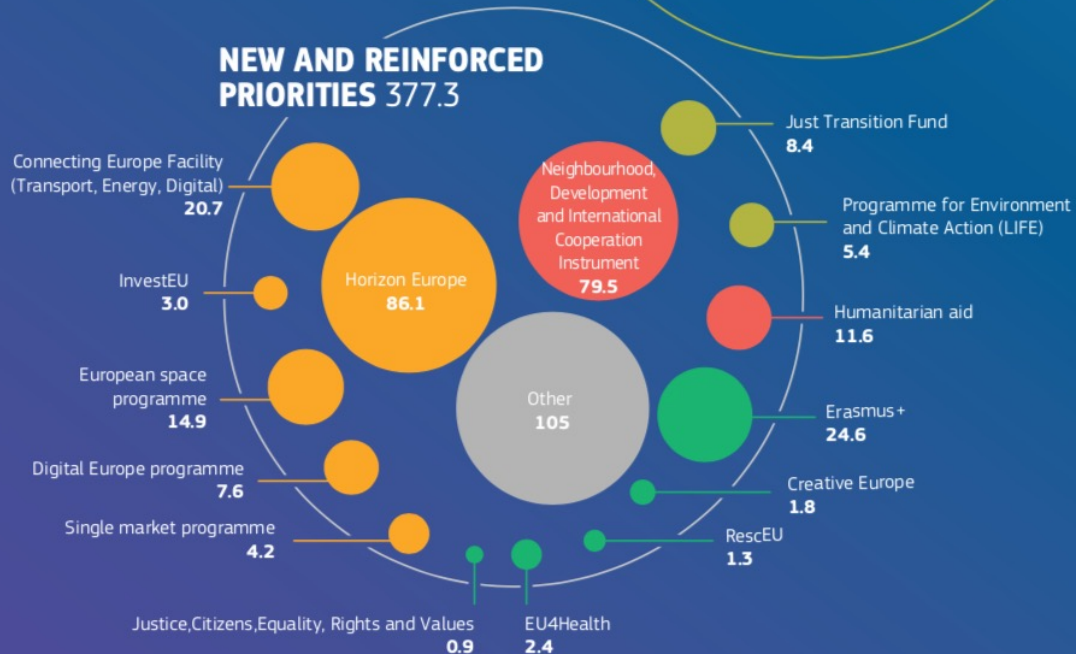
COHESION POLICY 372.6



COMMON AGRICULTURAL POLICY (CAP) 378.5



NEW AND REINFORCED PRIORITIES 377.3



New/reinforced priorities

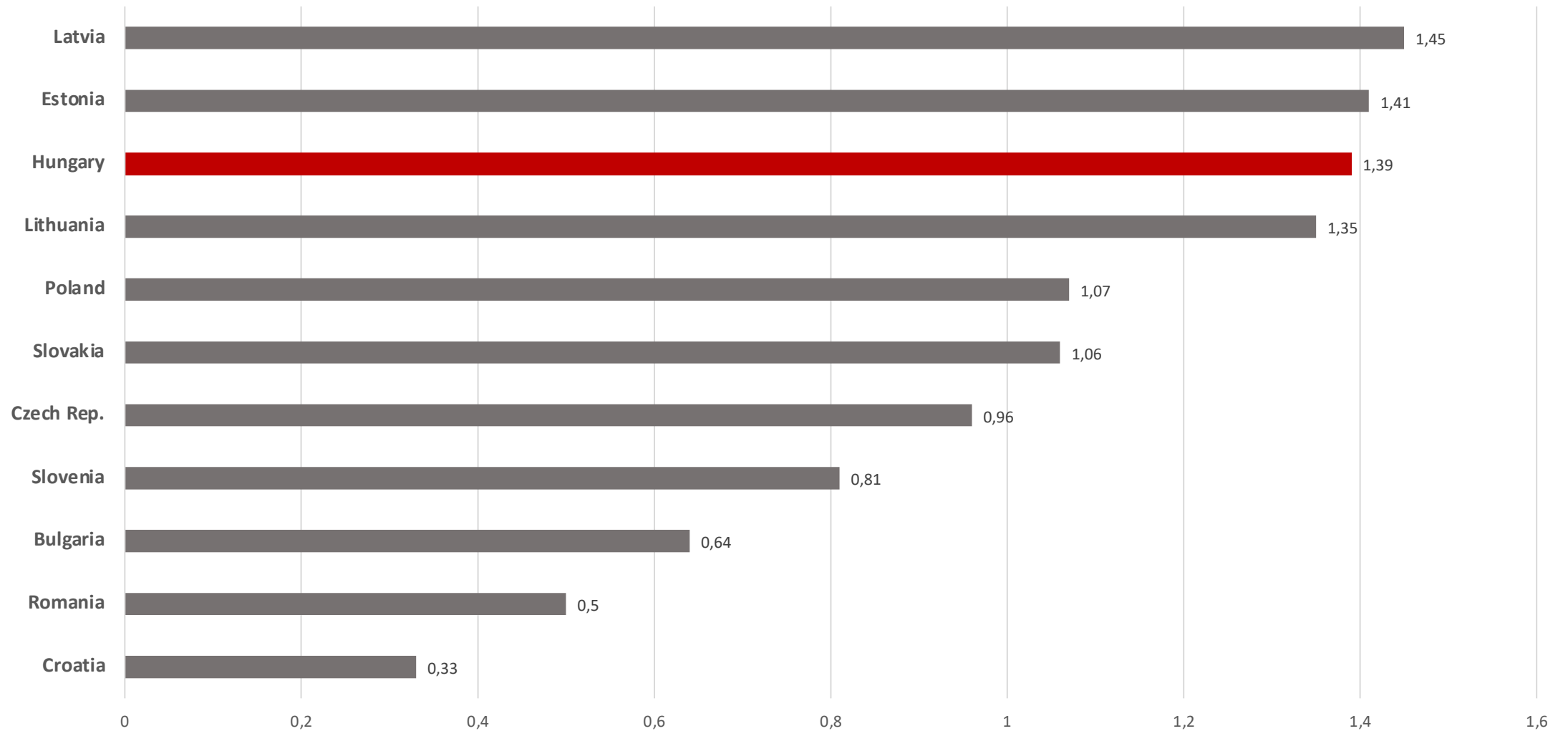
1. R&D
2. Just Transition
3. Digital transition

Plus,

- Recovery and Resilience Facility
- Ecological crises, disasters, civil protection
- Public health

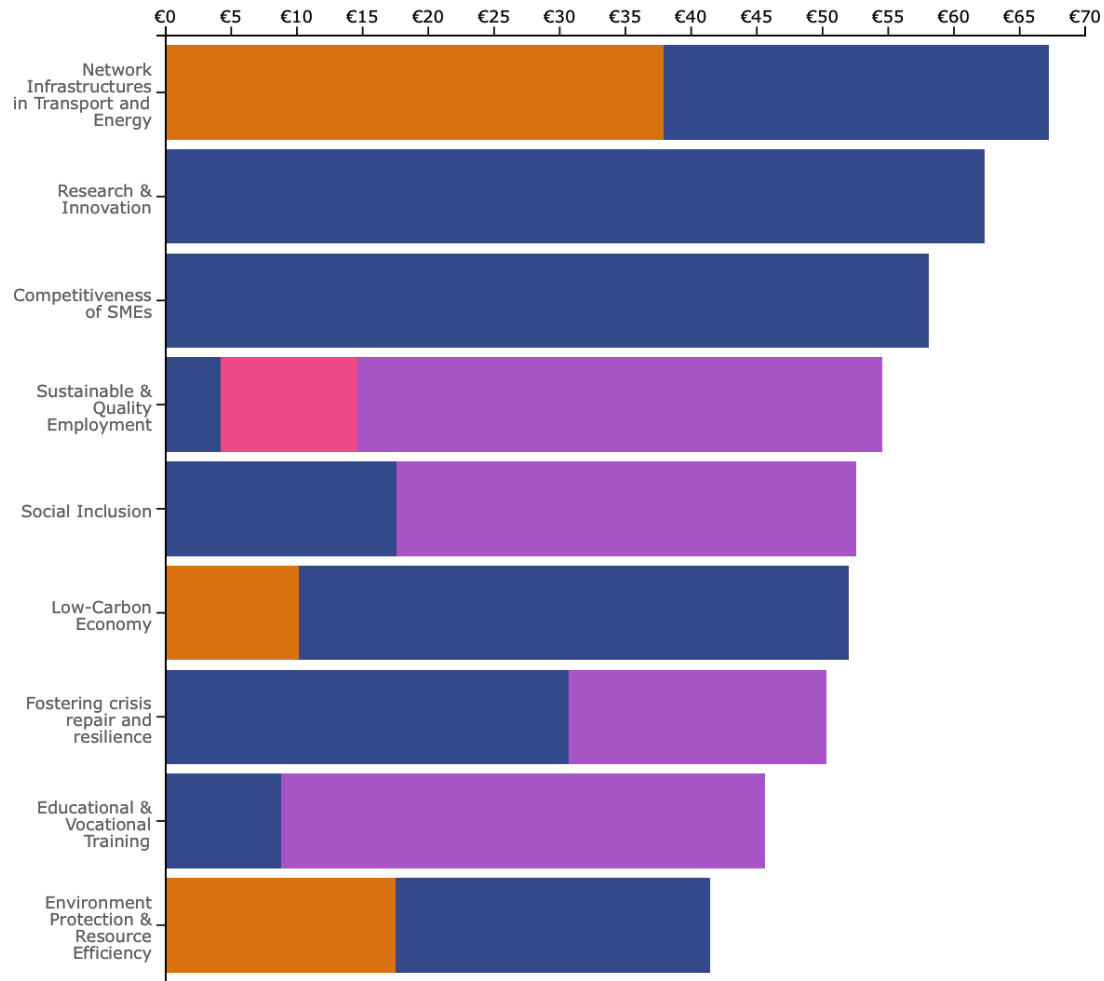
EU cohesion policy – main beneficiary countries (new MS)

Average annual transfers from EU Cohesion Funds, 2004-2020 (% of GDP)



EU cohesion policy – top 5 priorities

CohPol budget by thematic priorities, 2014-2020 (EUR billion)



Allocations below EUR 15 billion:

- ICT
- Climate change
- Public admin. Capacities
- Outermost /sparsely populated areas
- *Technical assistance*

Check your country @ cohesiondata.ec.europa.eu !!!

E.g. HU: plus Environment protections & Resource efficiency, Low-carbon economy (instead of Social inclusion and R&D)

EU cohesion policy – how does it work by now?

1. Transfer of place-based funds to EU regions (theoretically) and **to Member States (practically)**
2. Subsidiarity in programme design, implementation and M&E (theoretically), but **dominantly central programming & management of funds (except PL!)**
3. Result-orientation *via* use of performance indicators and conditionality mechanisms (requirement of basic structural reform steps by MSs), but **absorption bias and high cost-efficiency**
4. Separation of fund-management, audit & control, and evaluation (regulations, guidelines, technical assistance)
5. Strengthening the administrative capacities at subnational government level and promoting G2C and G2B cooperations **(occasionally)**

EU cohesion policy – risks and challenges

- **Sluggish convergence:** dynamic metropolitan agglomerations *versus* (micro)regions in development trap failing to catch up (notably both in old and new MSs, Diemer et al. 2022)
- **Resource curse:** the „paradox of plenty”, which means, the negative effect of the abundance of resources on economic growth (Sachs-Warner 1995) – in EU context: regarding EU funds as the only means of development, instead of social and economic innovation/diversification and attention paid to long-term social progress (Boschini-Peterson 2007)
 - Excessive bureaucracy and overdominance of redistributive policies as opposed to regulatory and administrative simplifications
 - Significance of quality of government
- **Rent-seeking:** special interest groups seeking direct or indirect gains from interventions run under the framework of EU cohesion policy (e.g., preparation of project applications/tender documents, specialists with technical and environmental expertise, Medve et al 2022.)

EU cohesion policy – risks and challenges

- **Absorption bias:** push for quick fund allocations instead of solidarity –» e.g., cream skimming and contra-selection of better off SMEs or people with better education (instead of companies in disadvantaged areas or people from vulnerable groups, like Roma, women w/ children, or seniors, BI 2014, BI et al 2022)
- **Political favouritism and clientelism:** tactical use of EU funds with the objective to maximising votes and political alignment rather than shifting funds to those most in need (10 through 30% higher amount of transfers, Banaszewska-Bischoff 2017, Bouvet-Dall’erba 2010, Muraközy-Telegdy 2016)
 - Also preference for highly visible, politically easy-to-communicate projects (cf. large public infrastructure projects White elephants (Robinson-Torvik 2005, CRCB 2023))
- **Corruption:** non-competitive and overpriced public investment projects and public contracts
 - Single bidders, large profit margins for cronies in public procurements (10%/UK- 50%/HU, Dávid-Barett- Fazekas 2020, CRCB 2017)

Further references

- Banaszewska M., I. Bischoff (2017) The Political Economy of EU-funds: Evidence from Poland. *Journal of Economics and Statistics*, 237(3), pages 191-224
- Bouvet, F. & S. Dall'erba (2010) European Regional Structural Funds: How Large is the Influence of Politics on the Allocation Process?. *Journal of Common Market Studies* 48(3), 501-528.
- Budapest Institute (2014) Impact assessment of an EU-funded measure for SME development. Policy study, September, 2013.
- Budapest Institute and E&Y (2020) Measuring the administrative costs of tax compliance in Hungary, EC DG Reform SRSS/SC2019/032 final study.
- Budapest Institute et al (2022) Policy lessons from the evaluation of youth employment policies in Spain, Hungary, Italy and Poland. Policy brief published June 2022.
- Boschini, A. D, and J. Petterson, J.Roine (2007), "Resource curse or not: a question of appropriability". *The Scandinavian Journal of Economics*, Vol.109(3).593-617.
- Dávid-Barrett, E., M.Fazekas (2020). Grand corruption and government change: An analysis of partisan favouritism in public procurement. *European Journal on Criminal Policy and Research*, 26(4), 411–430.
- Diemer, A. et al. (2022), "The regional development trap in Europe", *Economic Geography*.
- European Commission 2018. 8th Cohesion Report: Cohesion in Europe towards 2050. COM(2022)34 final.
- Medve et al (2022) Célellentétes következmények? Az uniós források hasznosulása Magyarországon. In Kolosi et al. (2022) *Társadalmi Riport*. Budapest.
- Muraközy,B. & Á. Telegdi (2017). Political Incentives and State Subsidy Allocation: Evidence from Hungarian Municipalities. [European Economic Review](#), 89(C), 324-344.
- Robinson, J., Torvik, R. (2005). „White Elephants”. *Journal of Public Economics* 89., 197-210.
- Sachs, J.D., A.M. Warner (1995), "The natural resource abundance and economic growth" NBER Working Paper 5398.