



Robert Schuman

Miami-Florida European Union Center of Excellence

The History and Challenges of Cohesion Policies

Carolyn Marie Dudek



**Vol. 14 No. 2
February 2014**

Published with the support of the European Commission

The Jean Monnet/Robert Schuman Paper Series

The Jean Monnet/Robert Schuman Paper Series is produced by the Jean Monnet Chair of the University of Miami, in cooperation with the Miami-Florida European Union Center of Excellence, a partnership with Florida International University (FIU).

These monographic papers analyze ongoing developments within the European Union as well as recent trends which influence the EU's relationship with the rest of the world. Broad themes include, but are not limited to:

- The collapse of the Constitution and its rescue by the Lisbon Treaty
- The Euro zone crisis
- Immigration and cultural challenges
- Security threats and responses
- The EU's neighbor policy
- The EU and Latin America
- The EU as a model and reference in the world
- Relations with the United States

These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

Miami – Florida European Union Center

University of Miami
2300 Campo Sano Building, 220C
Coral Gables, FL 33124-2231
Phone: 305-284-3266
Fax: (305) 284 4406
Web: www.miami.edu/eucenter

Jean Monnet Chair Staff

Joaquín Roy (Director)
Beverly Barrett (Associate Editor)
María Lorca (Research Associate)
Maxime Larivé (Research Associate)
Dina Moulioukova (Assistant Editor)

Florida International University
Rebecca Friedman (Co-Director)

International Jean Monnet Editorial Advisors:

Philippe de Lombaerde, UNU/CRIS, Brugge, Belgium
Michelle Egan, American University,
Kurt Hübner, University of British Columbia, Vancouver
Finn Laursen, University of Southern Denmark
John McCormick, Indiana University, Purdue
Félix Peña, Universidad Nacional de Tres de Febrero, Buenos Aires, Argentina
Manuel Porto, University of Coimbra, Portugal
Lorena Ruano, CIDE, Mexico
Eric Tremolada, Universidad del Externado de Colombia, Bogotá, Colombia
Roberto Domínguez, Suffolk University, Boston
Francesc Granell, University of Barcelona

The History and Challenges of Cohesion Policy*

Carolyn Marie Dudek
Hofstra University

Regional economic disequilibria was viewed as both an obstacle to and result of integration (European Commission 1965; European Commission 1962; European Commission 1969). Even within the Treaty of Rome, the Community tried to establish mechanisms to alleviate regional inequality. However, it was not until 1975 that the main mechanism of regional policy was established as a result of British and Irish enlargement: the European Regional Development Fund (ERDF). Since then, cohesion policy has become a significant EU expenditure accounting for **€347bn, or 35.7% of the total EU budget** for 2007-13 (European Commission Regional Policy-Info Regio 2012). It has also become a key policy linked to enlargement.

The underlying principle of cohesion policy assumes that the market alone cannot solve development problems and therefore government intervention is needed. This notion is in direct contrast to the underlying principle of EU competition policy, which asserts that the free market can solve economic development problems (Meadows, interview by author, 2003). The logic underlying cohesion policy is not only counter to EU competition policy, but also regulatory policies. Unlike other EU policies, cohesion policy is not a sectoral policy, but rather territorial in nature (Leonardi, 2006). Thus at times EU regulatory policy has also unintentionally worked counter to the goals of regional policy, sometimes disadvantaging poorer regions (Dudek, 2005).

As the Community has sought to ameliorate regional disparities, it meant that all levels of government: local, regional, national and supranational would need to be involved, however, member states have different territorial governance and European regional development programs have to varying degrees impacted the relationship and policy responsibility of different levels of government (Leonardi, 2006; Bachtler and Michie 1993; Marks, 1993). The very nature of regional development policy has provoked a re-examination of subsidiarity, or which level of government is the lowest and most appropriate level. The discussion of policy formulation and implementation at the lowest level possible also addresses the issue of the democratic deficit. Some argue that the closer government is to the people the more responsive and representative it is. Democracy, however, also implies that public funds are used in a transparent way and for public rather than private good. Yet, as we examine the history and current situation of EU regional funds we find that corruption and misuse still abound. Thus, to understand the history of regional policy it is imperative to look at the major transformations of the policy, how regional policy has impacted subsidiarity and the quality of democracy, become an important instrument of enlargement and contradicted or conflicted with other EU policies.

Subsidiarity and The History of Cohesion Policy

The Treaty of Rome pointed out the problem of regional economic disparities across the six original members. In the preamble of the treaty signatory members stated they were, “Anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the

* Carolyn Marie Dudek is Professor of Political Science and Director of European Studies at Hofstra University. She received her Ph.D. from the University of Pittsburgh and her research has resulted in publications related to European regulation of GMOs, EU-Latin American relations, Spanish politics, regional nationalism in Europe, and EU regional development policy.

differences existing between the various regions and the backwardness of the less favoured regions.” (European Economic Community 1957). As a result the treaty created three instruments to address regional disparities: the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Investment Bank (EIB). ESF focused on providing employment opportunity and retraining. The Guarantee portion of EAGGF was used to buy and store surplus produce and to encourage agricultural exports (McCormick 2004), whereas, guidance refers to funds utilized to improve the living and working conditions of farmers. EIB was to help fund “projects for developing less developed regions”(Treaty of Rome, Article 130a) and many projects went to rural regions. The focus of these funds demonstrates that in the earlier days of the Community there was strong emphasis on developing Common Agricultural Policy and these funds predominantly went to improving rural areas (Dall’Erba 2003).

In the 1960s the Commission began to show greater concern for regional economic disparities and in 1962 produced an Action Program, 1965 a Memorandum of Regional Problems and in 1969 a Memorandum on Regional Policy. In particular the 1969 Memorandum asserted that, “In many fields the establishment of the common market gives rise to special problems. It is only logical to try and solve these problems by joint efforts” (European Commission 1969:1). The memoranda recommended coordination of national and EU policies to address regional disequilibria.

It was not until the accession of the UK, Ireland and Denmark in 1973 that regional policy was firmly established with the creation of the ERDF. This first Community enlargement happened at the same time as the first oil shock and included a country like Ireland that was at the time composed mostly of the rural periphery. ERDF, however, was created to allay British discontent over not receiving the benefits of CAP as compared to more agricultural countries. Thus, ERDF became a concession in order for the UK to join and was embedded within their accession agreement. The initial creation of ERDF in 1975, however, was not intended to decrease the economic and structural backwardness of less fortunate regions of Europe, but rather to augment the central budgets of certain countries. Many scholars suggest cohesion policy was seen as a side-payment in order for lesser-developed countries to sign onto the single market and later European Monetary Union (EMU) (Pollack 1995; Allen 2000; Morata and Munoz 1996). The membership of Spain and Portugal in 1986, adding two much poorer members, changed the balance of budgetary priorities in the EC and regional development became a much larger policy (Laffan and Shackelton 2000). Both Spain and Portugal had significant regional economic disparities and were able to gain influence within the EC to promote the notion of cohesion (Manzella and Mendez 2009).

Although regional economic disequilibria were recognized in the Treaty of Rome, cohesion was given a legal basis with the Single European Act (SEA) signed just after Iberian enlargement. Article 130a of the SEA stated:

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 various regions and the backwardness of the least-favoured regions.

The main policy instruments to address cohesion were three Structural Funds: the European Regional Development Fund (ERDF), the European Agricultural Guidance and Guarantee Fund-Guidance Section (EAGGF) and the European Social Fund (ESF). Prior to 1989, structural funds were doled out to specific projects that were co-financed and member states played a major role in the decision to create and implement projects. Within the Regional Policy DG it became clear that a case by case distribution of projects was not adequate to promote the wealth generating capacity of worse off regions (Meadows, interview by author, 2003). In 1988, following the introduction of cohesion in the SEA, emerged a significant reform of regional policy and its main budgetary elements. The reform’s main architect was Commission President Jacques Delors and the Delors-1 package of February 1988 was a deal that set up

the general regulatory guidelines of the new Cohesion policy. The Delors-1 package doubled the amount of structural funds for the 1989-1992 program in order to help poorer regions that would not share the same benefits as richer regions (Laffan and Shackelton 2000). Moreover, the doubling of structural funds came to the detriment of cohesion funds, which national governments controlled and distributed. Delors wanted a greater inclusion of regional and local governments in regional development policy.

A key component of the Delors-1 package was the Commission's introduction of the "principle of partnership". This principle was to promote the participation of regional or local authorities in the adoption and implementation of regional policies made possible through EU co-financing. The underlying assumption was that regional policy makers would be more adept at evaluating their regional economies and would be better able to determine the advancements necessary to improve conditions in their region; thus making EU regional policies more efficient and effective. In addition, the Commission had hoped to lessen regional dependence on national government resources and to allow regional actors greater discretion (Smyrl 1997).

A schism within the Commission emerged regarding what role subnational governments should play or in other words to what extent partnership should be applied. Not only was the 1988 reform strongly challenged within the Commission it was also contested across member states. The Commission did not work as a unitary actor, but rather a small group, with the support of then Commission President Jacques Delors, created the basis of the reform (Hooghe 1997). Other DGs that the reform affected resented being forced to conform to these changes (Hooghe 1997). The group surrounding Delors, who were the innovators of the reform, established DG XXII Coordination of Structural Policy which would coordinate funds in such a way as to "maximize subnational input in structural programming" to facilitate stronger relations between regional/local authorities and the EU (Hooghe 1997:93). Counter to DG XXII, the Regional Policy DG desired a more flexible approach, whereby the extent to which subnational governments would participate in the system would not be uniform across all member states. By 1992, the Regional Policy DG's approach prevailed and DG XXII was eliminated.

Hooghe (1997) asserts that pressure to not achieve fully the partnership principle and empower regional-EU relations had more to do with internal divisions in the Commission regarding how to deal with subnational administrations. On the other hand, others suggest that the realization of the "partnership principle" has varied across countries and has been limited due to internal member state practices (Meadows, interview by author, 2003; White, interview by author, 2003). It seems that constitutional constraints and national government attempts to preclude regional governments from gaining more autonomy inhibited the realization of partnership (Dudek 2005).

The partnership principle can be seen as an attempt to promote subsidiarity, which is a principle that addresses the distribution of responsibilities among levels of government. The term subsidiarity stems from Catholic social thought and has influenced the connotation of federalism in continental Europe (Peters 1992; Curzio 1997). Peters (1992) asserts that the principle of subsidiarity in the context of the European Community leaves most responsibilities to national and sub-national governments. According to Olsen (1995), the principle of subsidiarity suggests that a problem should be solved at the lowest level capable of doing so effectively. This implies that the smallest possible unit should be responsible for carrying out social and political tasks. Subsidiarity, in principle, suggests that the EU can give considerable responsibility to sub-national governments. If this is the case, then the EU and its application of subsidiarity and the partnership principle should promote decentralization and further free sub-national governments from national and supranational infringement upon their policy-making and implementing abilities.

One perspective of the 1988 reform of regional development policy views the introduction of structural funds and the "partnership principle" as a way of strengthening the influence of regions within their respective nation-states and throughout Europe. Scholars suggest that the EU and structural funds

would augment the preexisting movement toward decentralization, especially since structural funds provide regional governments with resources to implement their own policies (Marks 1993; Conzelman 1995; Kohler-Koch 1995; Sharpe 1993; Meny and Wright 1985). In this view, the EU will become a “Europe of the Regions”, whereby the traditional nation-state breaks down and regions become the primary units below the EU (Marks 1992; Marks 1993; Hooghe and Marks 1996; Anderson 1992).

Structural funds, theoretically, can affect decentralization. These funds reallocate money from the EU to underdeveloped regions within member states, thus enabling regional governments to create and implement their own development policies. These plans are supposedly independent of the national government. The multi-level governance model of the EU suggests that structural funds involve a simultaneous centralization of power to the EU level and decentralization of power to sub-national governments (Marks 1993; Hooghe and Marks 1996; Hooghe and Marks 2001). This thesis purports that the Commission plays an increasing role supporting and promoting the interests of sub-national governments. In effect, a new partnership is created between the EU and sub-national regions allowing regional governments to assert their autonomy and to advance decentralization (Conzelman 1995; Marks 1993).

It may appear that the centralizing tendencies of integration and decentralization within nation-states are incompatible trends. However, as centralization occurs above the nation-state, decentralization within the nation-state can alleviate the tensions of integration. For example, although regulation and standardization throughout Europe is perceived as a threat to cultural identities and traditions, the simultaneous empowerment of regions preserves cultures and traditions and with certain concessions both the supranational and regional levels of governance can profit. Strengthening of regions through EU mechanisms can ameliorate the tensions concerning regional and national identities in the face of integration.

The partnership principle, however, does not address the existence of government actions and conceptualizations of the state that will retard or even prohibit the increase in regional governments having a greater say in development policy. In particular, it does not take into account the distribution of competencies between the national and regional governments and the difference in political weight of regions within a state. Internal pressures from within the Commission advocated a stronger role for regions in order to improve the effectiveness of funds. In the end, however, coordination between regions and the Commission was not as effective and far-reaching as assumed due to constitutional constraints within member states and member states’ jealousies regarding sovereignty and tensions among government levels (Meadows, interview by author, 2003).

The wording of the partnership principle, although optimistic to achieve more participation of lower levels of government, still leaves the final say to member states and is dependent upon their respective institutional structure (Colino 1996; Dudek 2001). As a result, member states have attempted to maintain their sovereignty over their territorial administrations. There often is a hierarchy between the national and regional levels of government making the national government the main legislator and executive of regional policies. On the other hand, many EU member states have increased devolution of policy competencies to lower levels of government, making decentralization a major trend in European politics (Sharpe 1993; Leonardi and Nanetti 1990). Devolution has promoted greater coordination between levels of government regarding regional policy, but in many member states much more needs to be done.

Barriers to coordination among levels of government are intensified when a policy area was once the domain of the national government. For instance, regional development policies existed at the national level prior to EU involvement; yet, some forms of social policy, such as the 1997 EU Employment Policy, which supported national labour markets, had not existed at the national level before. Thus, tensions may be less in some policy areas, which were not part of the national governments’ domain,

whereas, regional policy, which traditionally was the responsibility of national governments can create tension as national governments struggle to maintain their competencies[†].

Examining individual countries it becomes clear that each state has a different way of organizing territorial administrations. For example, the UK, Ireland and Portugal, traditionally unitary states, have maintained mechanisms to keep control of central authorities. In the UK there is little low level taxation and although the EU has pushed to give more powers to counties, this has not been achieved (White, interview by author, 2003). One instance is the way in which British Regional Development Authorities operate, whereby in actuality they are ultimately responsible to Whitehall. Similarly, in Portugal regional authorities are relatively weak compared to their regional counterparts in other member states and must report to Lisbon regarding regional development policy implementation. Ireland as well manages the implementation of structural funds mostly from the central government. Conversely, France has made a genuine attempt to decentralize and to give more responsibility to the prefects (Charles White, interview by author, 2003). Coordination between the Regional Policy DG and the regions varies across member states depending upon the extent to which regions have policy-making and implementation competencies.

Sometimes coordination among the Commission, member states and regions can be difficult since they have different priorities and goals than the Commission. For instance, member state elected officials need to provide benefits to their constituencies to maintain substantive legitimacy, which will hopefully ultimately keep them in office. As a result, member states will either bend their policies to fit those of the EU or bend EU policies to fit their own (Meadows, interview by author, 2003). Although EU policies attempt to influence or change member state practices, member states also try to maintain their own policies, and as a result little change in policy may actually occur. For example, the EU may make a request for a member state to adopt a policy initiative. The member state will then dialogue with the EU as to how the policy will be adopted. In the end, as a result of compromise, emerges a watered down version of the EU's original policy that looks more like the member state's original policy. The appearance is that the member state has adopted an EU policy, but in reality little change has really occurred (Meadows, interview by author, 2003).

Resistance to directives from Brussels can weaken the coordination of regional policies among EU regions and member states. Often times EU initiatives run counter to national and regional governments' views on how to achieve development (White 2003). When regional and national governments have their own vision of how policy goals should be achieved this can clash with European policies. Thus, often times the Court of Auditors may find that policies did not conform to the EU's mandate, however, in actuality it was just that national and regional governments felt that certain policy goals should be achieved in a different way. For instance, the Natura 2000 program stipulates that regions need to put aside a certain amount of land for environmentally protected areas as a condition for receiving funds. The Natura 2000 program's stipulations have significant implications for regional and national leaders since they are unable to develop as they deem appropriate (White, interview by author, 2003). As a result, however, the EU is able to achieve its policy goals without a working coordination with member states, but rather with a EU legal mandate.

Although member states often try to maintain authority over their territory and resist direct EU intervention in regional development[‡], some regional authorities have made a concerted effort to

[†] Another significant difference between EU social and regional policy is the national model each adopted. EU social policy tends to take a "top-down" approach more likened to the Franco-Italian model, whereas, regional policy has a "bottom-up" approach likened to the Irish-British model (White, interview by author, 2003). The difference in models certainly makes sense since these policies were initiated by certain member states and thus the policy coordination is likewise reflective of those countries' practices.

coordinate regional policy formation and implementation with the EU. Both the Regional Policy DG and regional governments have attempted to facilitate better interaction and coordination of regional policies. First, regional administrations over time have experienced an institutional learning curve whereby bureaucrats and policymakers at the regional level have become more skilled how better to use EU funds and to implement EU programs (Dudek 2003). Regional public administrations have created administrative units to deal with EU policies and fund distribution. In addition, over time bureaucrats have learned about the opportunities available from the EU to promote economic development within their region.

Second, regional governments have established lobbying groups in Brussels. These lobbies collect information about current events, programs and issues in the EU and report back to their region. In addition, the lobbying groups act as ‘mini-embassies’ to represent the interests of their region at the EU level. In Spain, the Basque Country’s attempt to set up a lobbying office in Brussels created a challenge to the Spanish constitution. The national government asserted that the creation of a lobby in Brussels was in direct violation of the constitution which reserves sole execution of international affairs with the national government. The matter was brought before the Constitutional Tribunal. The Tribunal upheld the Basque Country’s right to have an office in Brussels, declaring that international relations with the European Union are not exclusive to the state (Article 175/95). Regional lobbies have since become very common in Brussels.

Some members of the Regional Policy DG, however, suggest that these lobbies do not necessarily present new innovative ideas that are not already circulating within the Commission (Petzold, interview by author, 2003). It is difficult to assess the success of regional lobbies in influencing the Commission; however, it does provide a “back door” relationship between regions and the EU. Formally, the Regional Policy DG meets with regional lobby offices to brief them on current issues. Informally, regional lobbies hold seminars for members of the Commission to demonstrate examples of good practice with EU funds. This gives Regional Policy DG officials ideas on how to improve policies or how innovation can occur. In addition to these seminars regional offices also hold parties that are often well attended and can bring the attention of a region to members of the Commission.

Even members to join the EU in 2004 took the initiative to establish relations among regional and national officials with the Commission. There has been variation, however, among the acceding countries’ abilities to lobby. One of the more organized and ambitious lobbying efforts came from Poland (White, interview by author, 2003). Working with new member states and regions will add to the challenge of the Regional Policy DG to coordinate policy implementation and formulation. If these governments begin early to understand better the EU and its regional programs it may facilitate enhanced policy coordination and implementation.

Third, informal contacts between the Regional Policy DG and regions also exist to create a community of individuals dedicated to regional development. In order to facilitate a network of like-minded individuals dedicated to regional development, the Commission has attempted to preserve informal links with regional actors. The Commission, for example, sponsors seminars on best practice, to try to educate regional actors on how to best implement regional policies. The informal links between the Commission and regions has facilitated the creation of networks between these levels of government. Informal mechanisms have been essential to facilitate the working of established formal mechanisms (Meadows, interview by author, 2003).

‡ Member states certainly welcome structural funds, but are resentful of the “partnership principle” and the attempt to give regions a stronger role. For instance, when discussion of reforming regional development funds occurred Spain explicitly pressured for more cohesion funds as opposed to structural funds since cohesion funds travel directly to national coffers; thereby strengthening the national government’s ability to distribute funds.

Pressure for coordination between regional administrations and the Commission are both explicit and implicit. The “partnership principle” certainly sets an explicit goal of coordination, but in practice it has not quite achieved as extensive an outcome due to constitutional constraints. Thus, other implicit mechanisms have emerged to promote coordination in order to improve the implementation of funds and financial management. Links between the regions and the Commission have promoted innovation and models of “good practice” that can help other regions. Budgetary pressures within the Commission and need for improved oversight have also facilitated the growth of coordination between the Commission and regional authorities. Although the effectiveness of coordination has been stunted due to tensions of territorial authority with member states, it seems that over time and with institutional learning the coordination between regions and the Commission can improve. However, limits on coordination among government levels could be exacerbated with the most recent 2007-2013 structural funds program, which does not emphasise coordination, but rather greater involvement of national and regional governments (European Commission, 2004). If member states and their regions are to have a greater role, this may only invite less coordination and more domestic “turf wars” between national and lower levels of government regarding creation and implementation of regional policy.

Reform of regional development policy emerged again in 1993. This reform reinforced the components of the 1988 reform, namely subsidiarity and the partnership principle. However, the 1993 reform emerged also at the time of the anticipation of Maastricht with its creation of EMU and the future accession of Finland, Sweden and Norway. In fact Spain threatened to block the passage of Maastricht if the EU did not include new cohesion funds and a doubling of structural funds as compensation for joining EMU (Morata and Munoz 1996). Spain along with three other small countries, Ireland, Portugal and Greece, joined forces to push the EC to expand cohesion policy. The 1993 reform is a reflection of the pressure these countries placed on Maastricht negotiations in order to receive a side payment to help deal with the projected negative impact of EMU and to simply reach the convergence criteria. Within the Maastricht Treaty, not only was there an increase of funds namely the creation of a new fund, the Cohesion Fund given to states whose GDP was less than 90percent of the EU average and the fund went directly to member states not regions. The 1993 reform reinforced the main concepts of the 1988 reform, but also introduced new measures to improve transparency and simplify the procedures to allocate funds(Brunazzo 2010).

The preamble of the Maastricht Treaty states that, “to continue the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as closely as possible to the citizen in accordance with the principle of subsidiarity” (TEU, 1992). Additionally, Article F calls for the EU to respect the identities of its member states. In this way, subsidiarity was reinforced within the treaty, which also applied to regional development policy. In addition, the Maastricht Treaty also created the Committee of the Regions, a body composed of regional and local representatives, which would consult with the Commission regarding structural funds allocation and implementation as well as other regional concerns.

The reforms of regional development funds in 1988 and 1993 with the introduction of the partnership principle, attention to subsidiarity as well as increase of funds it appeared that regional governments would have a greater role in implementing development policies. In practice EU regional policy has had a mixed impact on decentralization across countries and even across regions within member states. Some scholars argue that EU regional policy limited the power of national authorities (Thielemann 2002) and promoted greater decentralization (Bachtler and Michie 1993; Robert Leonardi 2006), whereas other argue that constitutional constraints limited the extent to which subsidiarity could occur (Dudek 2005; Colino 1996) or that European Regional Development Policy was still too centralized at the EU level (Bachtler and Michie 1993). Edwards (1996) points out that article 3b of Maastricht may be unsuccessful at protecting regional governments from the encroachment of national and supranational

governments. He asserts that there is a “tension inherent in subsidiarity ...between the rhetoric of diversity and the modern impetus toward universality” (Edwards 1996:543).

Fraudulent use of EU funds

One of the other problems that regions faced regarding implementation of regional development policies was the inability of regional administrations to have implementation capacity. Often times as a result regions that most needed funds were forced to return unused funds at the end of the five-year program cycle (Dudek 2005). Without administrative capacity regional development moneys would have little effect on institutional structures or economic and social development.

Another component of the 1993 reform was to improve transparency and oversight of funds in order to avoid the misuse or corrupt use of funds. The number of projects and the large amount of territory where these projects are implemented creates a structural distance between EU institutions and the actual implementation of EU projects or investments, which makes oversight challenging. Moreover, the disjuncture between the various levels of government increases the likelihood that fraud will take place. Kohler-Koch (1995) and Dolz Lago (1996) assert that the Commission does not have the capacity to oversee the expenditure of EU money and Dolz Lago (1996) provides examples of fraud in the expenditure of EU funds, which goes against the ideals of the “partnership principle”.

The Court of Auditors provides some insight as to what allows misuse of funds to occur:

The fact that the management of projects is entrusted to bodies of which this is not their primary purpose and whose administrative structures are not always geared to the implementing, monitoring and checking of projects means that it is necessary to lay down clear, precise management rules and suitable control mechanisms. The Court’s inquiries have shown that the legal and technical means introduced by the Commission do not ensure the control of financial movements and do not make it possible to present the accounting data clearly. This situation makes it difficult or even impossible to ensure effective management, monitoring of local or regional joint financing, the overall control of the financial data presented in support of applications for interim payments or for payments of the balance and do not enable the quality of the results to be safeguarded (Court of Auditors 1996:140)

Adán Nieto Marín (1996) provides some other explanations why member states have not properly executed Commission dictated controls and why they have submitted incomplete reports or neglected to submit reports. First, he suggests that states have a lack of Community spirit. Member states have the “impression of [the EU as] artificial, distant and foreign” (Nieto Martín 1996:19; Dolz Lago 1996). Fraudulent use of EU money is not perceived as directly harmful to the member states. Second, states are responsible for compensating for improper expenditure, and incorrect use of funds has repercussions for the member state. Thus, it is not surprising that member states do not properly report or realize the proper controls to combat fraud. Third, national governments want to obtain as much money as possible for their citizens. This may lead to obtaining funds through false reporting of finances or other irregular methods. In this way, various forms of deception are used to gain as much money from the EU as possible. Fourth, the attempts to stop fraud within member states vary according to country. For example, Nieto (1996) points out that Germany and the United Kingdom had the most number of irregularities reported. This is not because they have the most incidents of misusing funds, but rather a greater interest in fighting fraud; and this idealism becomes embodied in their juridical organizations.

The system of oversight at the national level varies among countries. The European Parliament has recognized deficiency and pointed to the need for improved training of functionaries and better exchange between the Commission and member states. The Court of Auditors points out that in the context of EAGGF, the complexity and convoluted nature of the system facilitates fraud. In addition, the Commission does not have the capacity to know if national governments have actually reported all of the occurrences of fraud. The problems associated with national governments as main overseers, to avoid

misuse of funds, is further complicated since this responsibility is also shared with sub-national levels of government.

A significant number of occurrences of fraud with EU funds take place at sub-national levels of government (Dolz Lago 1996). For instance, according to the *Fiscal de Salamanca* report, conducted in 1992, Spanish local officials allowed misuse of EU funds. For example, according to EU stipulations, farmers and cattle owners in rural areas must obtain appropriate accreditation to receive EU funds. Small municipalities or certain functionaries of the municipalities are in charge of approving the justification for receiving funds and providing the necessary documentation needed for farmers to receive EU aid. In practice, however, local officials do not strongly scrutinize requests for accreditation. Farmers soon realize how to maneuver around EU laws and they become familiar with how to misuse funds. The *Fiscal de Salamanca*'s opinion is that this practice is a form of "picaresque[§] that constitutes an authentic fraud of the Community" (quoted in Dolz-Lago, 1996:44).

As part of Agenda 2000, the European Commission proposed a reform of the Structural Funds Program for 2000-2006. The three priorities of the reform are : " a greater concentration of assistance, a decentralized and simplified implementation of the Structural Funds and a strengthening of their efficiency and control" (European Commission 1998:3). One of the key differences between the 1994-1999 program and its successor is the change in monitoring and management of the programs. The Commission's specific reference to the need for better oversight of structural fund expenditure suggests their recognition that moneys may not have been used most efficiently and effectively in the past.

Although the 1993, 1999 and 2007 reforms of cohesion policy included greater oversight to avoid the misuse of funds, fraudulent use has continued. Although subsidiarity was intended to improve the efficiency and effectiveness of the expenditure of structural funds, it has also to some extent facilitated corruption and mishandling of funds as lower levels of government execute policies with inappropriate oversight. The problem of corruption has been ongoing, but recent enlargements have highlighted the situation.

Enlargement

Another major reform enacted in 1999, streamlined the categories of funding as a way to make way for twelve prospective new members, several of which would qualify for funding. Part of the growing pains of enlargement and the need for more cohesion funds was the loss of funds to older members, which when their regions were compared to those of central Europe, no longer would qualify for funds; thus, a phasing out system was created in the 2007-2013 budget.

Regional development funds historically have been an important part of EU enlargement, but the "big bang" of 2004 produced the impetus for another reform of regional development policy to continue in the original member states, but to also accommodate the new members. The amount of funds is both significant for the EU and the new member states and it became a source of intense controversy during negotiations (Hughes, et. al. 2004). Eastern enlargement changed what is considered underdeveloped within Europe. For example, objective one regions are those regions that the EU has deemed the most in need, falling 75% or less below the EU GDP average. With eastern enlargement, it meant that regions in west Europe that once qualified for funds would technically no longer meet the criteria. Spain and Portugal would have the most to lose, since they have been significant beneficiaries of ERDP, and would not strongly benefit from trade with central European countries due to their geography (Hughes, et. al. 2004). Moreover, Spain and Portugal, which were once seen as countries with inexpensive labor, would

[§] The notion of picaresque is found within Spanish literary tradition and has become a common theme throughout Spain's political history (Kenny, 1977). Picaresque means to take advantage of one's situation and implies cleverness and often even illegal behavior.

be looked over for even cheaper labor available in central Europe. As a way to deal with some of these issues, as part of Agenda 2000, the EU introduced reforms to prepare for enlargement. The categories of funding were streamlined from five to three, eligibility rules were made more stringent and more responsibility was delegated to lower levels of government for implementation and monitoring (Brunazzo 2010).

The 2007-2013 budget for regional development policy was difficult to negotiate with the addition of new member states in 2004 and 2007 and the desire of original fifteen members to maintain funds, even though with the EU of 27 certain regions that initially qualified no longer did, and as a result, the 2007-2013 budget instituted a phase out for those regions. The 2007-2013 budget allocated 51% of total regional spending to central European countries, although they represent less than one quarter of the total EU population (European Commission 2013). Again, the categories were revised into three renamed objectives: convergence, regional competitiveness and employment, and European territorial cooperation. The revision of the categories highlighted the need for innovation, improvement of the environment, adaptation to social changes and cross-border cooperation.

In order for Central European countries to gain membership and receive funding the EU placed conditionality. EU conditionality assumes an asymmetrical relationship between new members and the Commission, with the Commission setting the rules. Many scholars suggest that this conditionality has had varied impacts across new members (Hughes, et.al. 2004). A conditionality often discussed is the EU's promotion of decentralization as part of the principle of subsidiarity. The CEEC countries were mostly unitary systems both prior to and following transition. However, scholars argue that with EU regional development moneys and EU conditionality there has been a mixed result (see Hughes et. al. 2004). For instance in Bulgaria, a weak system of multi-level governance has remained and the central government still has remained dominant (Yanakiev 2010). In the case of Romania there have been some move toward decentralization, but it has mostly been to access and manage structural funds, but has not fundamentally impacted decentralization (Dobre 2010); whereas in the case of Poland there was a greater moved toward decentralization (Churski 2008). Although, the Commission promotes subsidiarity and the empowerment of regional and local authorities it seems the institutional shift domestically within the newer members has not been realized as much as the Commission may have desired.

Another less desired outcome of EU regional policy and funding has been the pervasiveness of fraudulent use of funds in Bulgaria and Romania. Bulgaria and Romania had funds stopped for certain projects as a result of the Commission's uncovering the mismanagement of funds. Not only were funds misused, but there also was difficulty for Romania to absorb much-needed funds (*The Economist* 2012). Romania and Bulgaria's lack of administrative capacity, understanding of how the EU institutions work coupled with corruption has limited the impact of EU regional development policy in these poorest new members. Nonetheless, regional funds in other newer members have contributed to improving regional conditions. Yet, regional disparities still persist in central Europe and the post 2013 regional development program will see many regions from the original fifteen countries lose funds as regional development policy continues to shift its focus eastward.

Conflict of Policies?

As mentioned earlier, regional policy is territorially based rather than sector in nature. As one Commission member points out, there is a DG for Regional Policy, but there is no Council for Regional Policy, although there are Councils for Agriculture and Social Policy (Petzold, interview by author, 2003). Moreover, the regional policies that deal with agriculture and fishing are executed through the Agricultural DG, not the Regional Policy DG. Thus, the design, legislating and execution of regional policy is not as straight forward as it is with other policy areas that fall more explicitly within sectoral boundaries.

The re-distributive logic of regional policy is also quite different than the distributive or regulatory logic of other sectorally oriented EU policies. The basic premise of regional development policy is to use financial mechanisms to re-distribute funds from wealthier to poorer regions. On the other hand, regulatory policies in agriculture, fishing and industrial sectors are examples of policies that regulate activities of certain economic sectors.

Theodore Lowi's (1964) classic work on public policy helps classify the difference between re-distributive and regulatory policies. According to Lowi (1964) there are three basic types of policy: distributive, re-distributive and regulatory. Distributive policies are distributed on a unit by unit basis in such a way that "the loser and the recipient need never come into direct confrontation" (Lowi 1964:690). Often distributive policies come in the form of log rolling or pork barrel politics, thus each actor receives something, and therefore there is little conflict between winners and losers (Lowi 1964; Pollack 1994).

Redistributive policies, on the other hand, have identifiable winners and losers, whereby resources are transferred from the haves to the have-nots. The key ingredient of these policies is that not only are there winners and losers, but there is also a social class component involved. Resources are allocated from one group with greater resources and given to another that has fewer resources. Although the distinction between winners and losers is clear it is often seen as legitimate since it includes social consciousness and is likened to a "Robin-Hood" inspired policy.

Similar to redistributive policies, regulatory policies also create visible winners and losers. The basis for regulatory policy decisions, however, is not based on socio-economic considerations, but rather the conditions of a specific economic sector. Regulatory policies are "rules issued for the purpose of controlling the manner in which private and public enterprises conduct their operations" (Giandomenico 1999:9). Industries involved in an economic sector are affected in the same way; and thus are legally treated equally. It is important to emphasize, however, that only businesses within a certain sector gain or lose as a result of regulatory policies.

Within the domestic realm government regulatory policy can be difficult since it is clear "who will be indulged and who deprived" (Lowi 1964:690-691). Since costs and benefits are concentrated organized interests will place pressure on government officials making it often times politically difficult for governments to pass far reaching regulatory policies (Wilson 1973). On the other hand, and more relevant to European values, redistributive policies can be seen as legitimate and less problematic since they contain a component of social-consciousness (Tsoukalis 2003).

Lowi's typology, however, was based upon domestic politics. How are these same kinds of policies decided at the EU level, and how do they interact with one another? Mark Pollack (1994) explains that the decision making process for different kinds of policies in the EU differ depending on the decision making rules and types of bargains necessary to approve legislation. Since decision-making differs across policy types there seems to be insufficient mechanisms to coordinate these policies and consideration for the impact one policy type may have upon another. Relevant to our discussion is mainly the interaction of redistributive and regulatory policies, which include competition policy.

Regulatory policy is also seen as necessary to ensure the success of the single market. At the EU level, regulatory policies are an attempt to make Community wide regulations upon public and private entities. Scholars suggest that with deeper integration grew a functional need for greater EU involvement in regulatory policy to achieve the free market (Giandomenico 1996; Pollack 1994). As a result, competency for regulatory policy has been partially reallocated to the EU level.** Since EU legislation

** Reallocation of regulatory policy from the national level to the EU level is the type of policy reallocation the multi-level governance model suggests occurs with European integration.

supersedes domestic law^{††} this also means that member states must concede autonomy in the field of regulatory policy.

Regarding competition policy, which was key to ensuring the completion of the single market, the EU instituted de-regulation and limits on the role of member states to institute protectionist policies, such as state subsidies. For instance, member states were not allowed to provide subsidies to failing industries, as they had done in the past. Usually, failing industries are also concentrated within a particular territorial area. Thus, competition policy's limit of state subsidies had a territorial effect since these industries tend to be concentrated in certain regions such as boat construction and steel manufacturing. At the same time the EU was limiting national subsidies, the EU was also sending subsidies to regions in the form of regional development funds. Thus, competition policy and regional development policy operating under different logics ended up counter-acting one another. As some suggest, the goals of competition policy often trump those of cohesion (Thielemann 2002; Petzold 2003). Competition policy is premised on the supposition to allow the market to work freely and thereby letting the market solve development problems; whereas, regional development policy assumes the need for state intervention to remedy regional economic disequilibria.

Similar counteraction also occurred in other regulated sectors. For instance, regulatory policies such as milk and fishing quotas had a territorial impact on certain poorer regions dependent on agriculture and/or the fishing sector (Dudek 2005). Under the logic of comparative advantage often times economic sectors are geographically concentrated and as a result regulations can also have an important territorial impact. Thus, although EU regulatory policies are intended to impact certain policy sectors, they can unintentionally negatively impact certain regions that regional policy is intended to help.

Conclusion

EU Regional development policy has evolved over time. Initially, the program was created simply to meet the demands of British enlargement, but later become a necessary instrument to ease the transition to EU membership for new poorer members of the Union. Overtime the program has been modified to improve implementation and to streamline the categories of which regions and projects would qualify for funding. In particular, the 1988 reform introduced the partnership principle, an attempt to include subsidiarity into the application of regional development policy. Later reforms attempted to expand the notion of subsidiarity and as a result the EU ended up promoting institutional decentralization to different degrees within member states.

The enlargement of Spain and Portugal significantly expanded ERDP and set the stage for the role that ERDP would play for the major expansion of the EU in 2004. The "big bang" meant a re-distributing of funds from older members eastward. As a result the 2007-2013 programs became a compromise between the needs of central European new members and the continued need of the original fifteen. Cohesion policy remains a key component to enlargement, both new and old members have been found to misuse funds. In the cases of Romania and Bulgaria, misuse of regional development funds became so prevalent that all funds were stopped.

It seems that although fraud is one problem that detracts from achieving the goals of EU regional development policy, the conflicting logic underlying other EU policies can also work to counter ERDP's positive effects. ERDP is based upon the logic of re-distribution, whereby those with more resources pay and those with less resources benefit. Regulatory policy also consists of winners and losers and often times the policy has unintended territorial affects that work counter to ERDP. Moreover, EU competition policy, one type of regulatory policy and key to creating the single market, is based upon letting the

^{††} European Court of Justice decisions, specifically *Costa vs. ENEL* (1964) and *Simmenthal vs. Commission* (1978) established the supremacy of EU law to national law.

market regulate itself to solve development problems, whereas, ERDF is based upon the supposition that the market cannot solve developmental problems alone. Competition policy is based upon stopping government subsidies to failing industries, whereas, ERDP is about subsidizing failing regions. In the end however, competition policy usually wins out (Thielemann 2002).

The success of ERDP is hard to measure since it is not clear which factors have had an impact on development in certain regions (Leonardi 2006). There is certainly anecdotal evidence of improved infrastructure, environmental and rural conditions and many other positive tangible changes. However, cohesion, which is the goal of the policy, has still not yet been achieved.

Bibliography

- “A Funding Obsession.” 2012. *The Economist*. June 5.
<http://www.economist.com/blogs/easternapproaches/2012/06/eu-funds-absorption-romania>.
- Allen, David. 2000. “Cohesion and Structural Adjustment.” In *Policymaking in the European Union*, edited by Helen Wallace and William Wallace, 209–33. Oxford: Oxford University Press.
- Anderson, Jeffrey. 1992. *The Territorial Imperative*. Cambridge: Cambridge University Press.
- Bachtler, John, and Rona Michie. 1993. “The Restructuring of Regional Policy in the European Community.” *Regional Studies* 27 (8): 719–25.
- Brunazzo, Marco. 2010. “Regional Europe.” In *European Union Politics*, edited by Michelle Cini and Nieves Perez-Solorzano Borragan, 291–305. Oxford: Oxford University Press.
- Churski, Pawei. 2008. “Structural Funds of the European Union in Poland—Experience of the First Period of Membership.” *European Planning Studies* 16 (4): 579–607.
- Colino, Cesar. 1996. “The Impact of European Integration on the Territorial Balance of Power in Member States.” *The European Policy Process. Occasional Paper 2*.
- Conzelman, Thomas. 1995. “Networking and the Politics of EU Regional Policy: Lessons from North Rhine-Westphalia, Nord-Pas and North West England.” *Regional and Federal Studies*.
- Court of Auditors. 1996. “Annual Report Concerning the Financial Year 1995.” *Official Journal of the European Communities, Information and Notices* 39.
- Curzio, A.Q. 1997. “European Union and Italian Federalism: Is There and Catholic Thought?” *European Union Review* 2 (1).
- Dall’Erba, Sandy. 2003. “European Regional Development Policies: History and Current Issues”. European Union Center University of Illinois-Champaign.
- Dobre, Ana Marie. 2010. “Europeanization and New Patterns of Multi-Level Governance in Romania.” *Southeast European and Black Sea Studies* 10 (1): 59–70.
- Dolz Lago, Manuel Jesús. 1996. “Los Fraudes Agrarios a La Unión Europea”. Ministerio de Agricultura, Pesca y Alimentación, Madrid.
- Dudek, Carolyn. 2001. “The European Union’s Effect upon Regional Economic Development and Policy-Making Ability.” *Regional and Federal Studies* 11 (1).
- . 2003. “Creation of a Bureaucratic Style: Spanish Regions and EU Structural Funds.” In *Between Global Economy and Local Society: Political Actors and Territorial Governance*, edited by Jeanie Bukowski, Simona Piattoni, and Marc Smyrl. Lanham, Md: Rowman and Littlefield.
- Dudek, Carolyn Marie. 2005. *EU Accession and Spanish Regional Development: Winners and Losers*. Regionalism & Federalism no. 4. Bruxelles ; New York: P.I.E.-Peter Lang.
- Edwards, Denis. 1996. “Fearing Federalism’s Failure: Subsidiarity in the European Union.” *American Journal of Comparative Law* 44.
- European Commission. 1962. “Memorandum of the Commission on the Action Programme of the Community for the Second Stage. COM (62) 300 Final, 24 October 1962.”
<http://aei.pitt.edu/1327/>.
- . 1965. “EEC Commission Recommends Active Regional Policy for EEC. Information Memo P-44/65, May 1965. Includes French Text.” <http://aei.pitt.edu/15416/>.
- . 1969. “Proposals on Regional Policy. Information Memo P-55/69, October 1969.”
<http://aei.pitt.edu/30012/>.
- . 1998. “Proposed Regulations Governing the Reform of the Structural Funds 2000-2006 (Preliminary Version).”
- . 2013. “Financial Framework 2007-2013.” *Financial Programming and Budget*. March 19.
http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#cf07_13.

- European Commission Regional Policy-Info Regio. 2012. "EU Cohesion Funding-Key Statistics." *EU Cohesion Funding – Key Statistics*. August 31.
http://ec.europa.eu/regional_policy/thefunds/funding/index_en.cfm.
- European Economic Community. 1957. "Treaty of Rome."
<https://www.google.com/search?q=Treaty+of+Rome&ie=utf-8&oe=utf-8&aq=t&rls=org.mozilla:en-US:official&client=firefox-a>.
- Giandomenico, Majone. 1996. *Regulating Europe*. New York: Routledge.
- . 1999. "The Regulatory State and Its Legitimacy Problems." *West European Politics* 22 (1): 1–24.
- Hooghe, Liesbet. 1997. In *EU Cohesion Policy and Competing Models of European Capitalism*. Washington, D.C.
- Hooghe, Liesbet, and Gary Marks. 1996. "Contending Models of Governance in the European Union." In *Europe's Ambiguous Unity: Conflict and Consensus in the Post-Maastricht Era*, edited by A. Cafruny and C. Lankowski. London: Lynne Rienner Publishers.
- . 2001. *Multi-Level Governance and European Integration*. Lanham, MD: Rowman and Littlefield.
- Hughes, James, Gwendolyn Sasse, and Claire Gordon. 2004. "Conditionality and Compliance in the EU's Eastward Enlargement: Regional Policy and the Reform of Sub-National Government." *Journal of Common Market Studies* 42 (3): 523–51.
- Kohler-Koch, Beate. 1995. "Regions as Political Actors in the Process of European Integration." *Manheim: Working Paper*.
- Laffan, Brigid, and Michael Shackelton. 2000. "The Budget." In *Policy-Making in the European Union*, edited by Helen Wallace and William Wallace, 4th ed., 211–42. Oxford.
- Leonardi, R., and R. Nanetti. 1990. "Emilia-Romagna and Europe: A Case Study of Regional Transformation in the Preparation for the Single Market." In *The Regions and European Integration: The Case of Emilia:Romagna*, edited by R. Leonardi and R. Nanetti, 1–12. London: Pinter Publishers.
- Leonardi, Robert. 2006. "The Impact and Added Value of Cohesion Policy: Cohesion in the European Union." *Regional Studies* 40 (2): 155–66.
- Lowi, Theodore. 1964. "American Business, Public Policy, Case Studies and Political Theory." *World Politics* 16 (4): 677–715.
- Manzella, Gian Paolo, and Carlos Mendez. 2009. "The Turning Points of EU Cohesion Policy". Independent Report for European Commission.
- Marks, Gary. 1992. "Structural Policy in the European Community." In *Euro-Politics*. Washington, D.C.: Brookings Institute.
- . 1993. "Structural Policy and Multilevel Governance in the EC." In *The State of the European Community: The Maastricht Debates and Beyond*, edited by Alan Cafruny and Glenda Rosenthal. Boulder: Lynne Rienner Publishers.
- McCormick, John S. 2004. *The European Union: Politics and Policies*. 3rd ed. Westview Press.
- Meadows, Graham. 2003. "Acting Director General of DG Regio."
- Meny, Yves, and Vincent Wright. 1985. *Center-Periphery Relations in Western Europe*. Allen and Unwin.
- Morata, Francesc, and Xavier Munoz. 1996. "Vying for European Funds: Territorial Restructuring in Spain." In *Cohesion Policy and European Integration: Building Multi-Level Governance*, edited by Liesbet Hooghe, 195–218. Oxford: Clarendon Press.
- Nieto Martín, Adán. 1996. *Fraudes Comunitarios: Derecho Penal Económico Europeo*. Barcelona: Praxis Editorial.

- Olsen, Johan. 1995. "European Challenges to the Nation State." *ARENA Working Paper* Number 14.
- Peters, B. Guy. 1992. "Bureaucratic Politics and the Institutions of the European Community." In *Euro-Politics*, edited by Alberta Sbragia. Washington, D.C.: Brookings Institute.
- Petzold, Wolfgang. 2003. "Information- Regional Policy DG,"
- Pollack, Mark. 1994. "Creeping Competence: The Expanding Agenda of the European Community." *Journal of Public Policy* 14 (2): 95–145.
- . 1995. "Regional Actors in a Intergovernmental Play. The Making and Implementation of EC Structural Policy." In *The State of the European Union*, edited by Carolyn Rhodes and Sonya Mazey, 3:361–90. London: Longman.
- Sharpe, L.J. 1993. *The Rise of Mesogovernment in Europe*. London: Sage Publications.
- Smyrl, Marc. 1997. "Does European Community Regional Policy Empower the Regions?" *Governance* 10 (3).
- Thielemann, Eiko. 2002. "The Price of Europeanization: Why European Regional Policy Initiatives Are a Mixed Blessing." *Regional and Federal Studies* 12 (1): 43–65.
- Tsoukalis, Loukas. 2003. *What Kind of Europe?* Oxford: Oxford University Press.
- White, Charles. 2003. "Information- Regional Policy DG."
- Wilson, James Q. 1973. *Political Organizations*. Basic Books.
- Yanakiev, Alexander. 2010. "The Europeanization of Bulgarian Regional Policy: A Case of Strengthened Centralization." *Southeast European and Black Sea Studies* 10 (1): 45–57.