CURRENT TRENDS AND SPECIAL CHARACTERISTICS IN THE SPENDING OF THE EUROPEAN UNION'S REGIONAL DEVELOPMENT FUNDS

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Abstract

The most important instruments of the EU's regional development policy are the three funds made up of the GNI-pegged contributions of member states. The European Regional Development Fund, the European Social Fund and the Cohesion Fund – collectively the cohesion resources – fund all development aimed at facilitating the convergence process of the less developed regions within the EU and at retaining the competitiveness of the EU as a world region despite its being in the crossfire of internal and external challenges. This in turn means that the quantitative and qualitative considerations regarding how the funds spent are paramount. Nominal spending – that is the amount of the allocated funds actually accessed within the given 7+2-year timeframe – is measured by the absorption rate. However, "quality spending" i.e. efficient and effective usage of the resources is vital. The purpose of this study is to spotlight absorption: to determine the current access ratio of the overall 2007–2013 funding allocated a year and a half before the deadline. The author also focuses on spectacular differences in fund use in light of how the various member countries actually put them to work, together with the underlying reasons. The recently launched programme period of 2014–2020 is currently in its preliminary phase during which the EU members are working out their partnership agreements and operative programmes. The progression rates are different for each member state. For this timeframe the author explores the legislative background for a possible shift in allowed spending towards higher quality.

Keywords: European Union; Cohesion Funds, absorption, efficiency

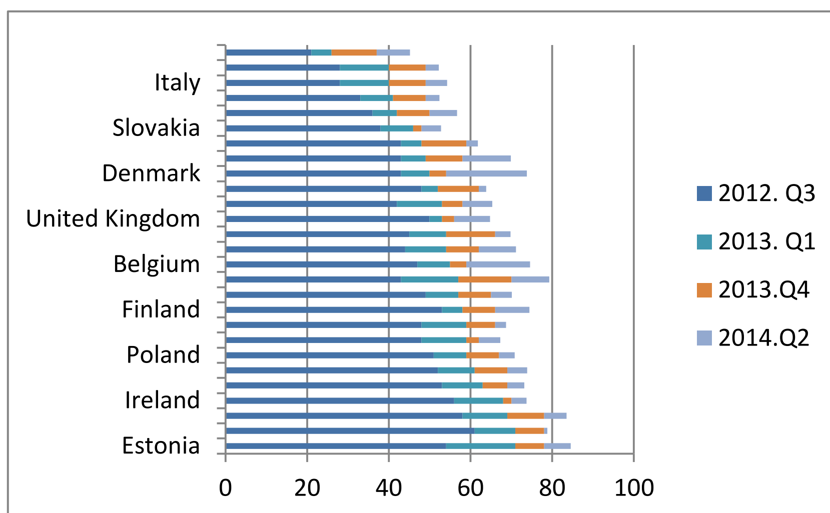
Introduction

We illustrate the quantitative aspect of fund use in the 2007–2013 period through an evaluation of European Commission statistics. However,

an analysis of the qualitative indicators of the period will require impact assessments covering 3 to 5-year periods. For the period of 2014–2020 we cannot yet talk about the quantitative dimension of allocated funds, as approval of the partnership agreements and operative programmes is not expected before late summer. Therefore, I have instead focused on a qualitative analysis of the background legislative package (European Parliament et Council 2013).

Quantitative data in light of actual fund use

2.1 Each quarter the European Commission issues reports on the degrees with which each member state actually accesses the available cohesion resources. The DG for Finance and Budget publishes information on the amount of money accessed from the three funds (not including advances), meaning the amount of money for which Brussels had granted dispersion approval. The most recently published data were the percentages of funds accessed as against the overall allocations as of 15 April, where the numbers suggest cause for concern regarding several member states. However, actual spending data are somewhat higher than the numbers show (where disbursement requests were not yet received by Brussels or where central approval of some disbursement submissions was still pending). However, several member states are so far behind that they will not be able to catch up before the final, n+2 cutoff point which comes at the end of next year.



1. diagram – Percentage of funds allocated per MS paid by the Commission (based on the data from the Regional and Urban Policy Finance and Budget Unit of the European Commission)

2.2 Estonia leads the disbursement field, having accessed 84.4 percent of its available funding. The other two Baltic member states have also done very well. Some analysts say that these countries have invested a significant proportion of the subsidies into SME development or venture capital funds, which qualify as "already spent" from the EU’s point of view. However, a look at the access data per fund yields a different picture. As far as Estonia and Lithuania are concerned, not only are the ERDF (which is used to finance businesses) indicators high but so are those of the other two funds. We can see, that the results show a territorial-specific good achievement in the case of Baltic countries. The reason of this level during the implementation can be explained only from the center, from European Committee, Brussles. According to the information of Desk General Regio, the high levels of financial absorption in Estonia can be seen as resulting from a range of factors, among which they can identify the following:

(1) EU funding is planned as part of the public funding/ state budget.Estonia uses various implementation schemes - sectorial investment plans, programmes and open calls. The usage of EU funding is planned as part of the public funding/ state budget and this coordinated planning has enabled to foster implementation, especially for the public investments what are implemented under investment plans (e.g. transport projects) and programmes (RDI investments).

(2) In the numerous areas there was a real need/demand for the additional public investments. For example the projects for meeting requirements of the environmental acquis and investment needs for developing transport infrastructure were already mapped during pre-accession period. Large number of infrastructure and transport investments was prepared using EU technical assistance of 2004-2006 and hence those projects were ready for financing in the beginning of 2007-2013.

(3) Estonia has initiated several reallocations of funding within and between the operational programmes so as to boost the use of funds in the sectors with the greatest demand. For example, in order to realign operational programmes with changed situation, in 2011 ERDF resources were transferred from OP "Living Environment" to OP "Economic Environment" to the areas where need for additional resources was determined to be highest: entrepreneurship and innovation and local roads. During the economic crises, financial instruments were also used to provide additional financing for the enterprises.

(4) Centralised administrative structure. Even there are several line ministries and number of intermediate bodies, the system for the EU support implementation is reasonably well coordinated and monitored by Ministry of Finance acting as managing authority.

Lithuania indeed has a higher than average rate of financial absorption as concerns support from the European Regional Development Fund and the Cohesion Fund in the period 2007-2013. The high levels of financial absorption can be seen as resulting from a range of factors, among which the DG Regio can identify at least the following:

(1) Lithuania has introduced a "transitional" provision in the relevant national legal basis to ensure smooth transition between the two programming periods 2004-2006 and 2007-2013. This has allowed Lithuania to generate a project pipeline, to ensure the continued investments and to generate expenditure as from the beginning of the eligibility period and before the formal adoption of the operational programmes by the Commission in 2007.

(2) Lithuania has made wide use of the opportunities offered by the European Economic Recovery Plan (2008) which introduced possibilities to e.g. front-load financing and accelerate investments.

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(4) In some cases, the amounts paid by the Commission to Lithuania have concerned allocations to financial engineering instruments. This has increased the financial absorption of the Lithuanian programmes from the EU budget while the actual related expenditure on the ground is incurred by final recipients later through time.

Latvia is a special case, almost extreme: it has used up nearly its entire share of the European Social Fund allocated to "human content development" (training, employment, social programmes). At the same time, to date it has submitted accounts for less than half of the Cohesion Fund. Another "corrective factor" regarding which country comes where is the question of whether a member state also receives subsidies from the Cohesion Fund. Large-scale infrastructural investments with longer preparation and implementation phases can be the factors behind negative anomalies where the settlement of accounts is prolonged. To manage this, Brussels introduced an n+3 settlement rule for this fund, up until 2010. Suggesting that something different is afoot, Spain and Portugal have managed to access over 70 percent of their allocated resources from the Cohesion Fund. Italy also seems to disprove this presumption as even without this Fund it trails behind all the other countries with a 54 percent payout percentage.

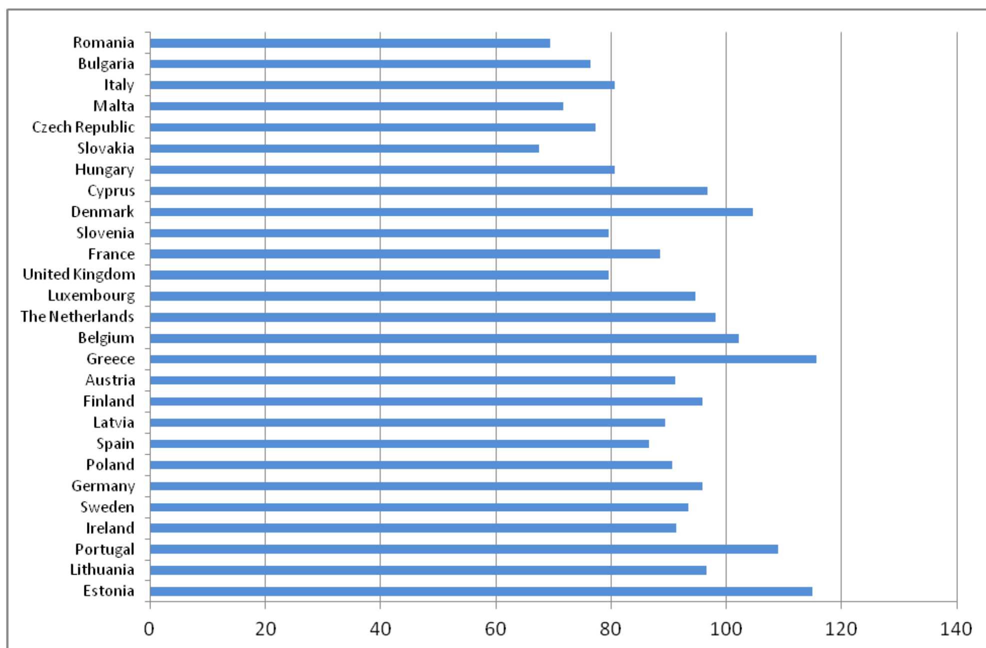
2.3 In many cases the dispersal rate for each fund differs sharply from one country to the next. With Hungary, Slovenia and Slovakia, more than half of their allocated resources from the Cohesion Fund are still available while they have managed to access nearly two-thirds of the ERDF resources.

Progress with the ESF funding has been slower, given multiple priority government projects and a number of "soft" items that have dragged on and on. Another type of heterogeneity is when progress in accessing the Cohesion Fund is significantly ahead of Structural Fund access, for example in the cases of Spain and Greece. For the latter, disbursement has been made even more complicated by transparency problems experienced during past (and presumably future) audits. The last in line is Romania with an access rate of 45.2 percent and where progress has been delayed significantly regarding each and every fund.

Deadline forecasts

Where catching up is possible and where it isn't

3.1 Current nominal data tells us little, but extrapolating the fund use trends of the past two years to the end of the n+2 deadline suggests that only ten countries are certain to access their entire support funding. Among the leaders are the Baltic nations (except Latvia), Portugal, Germany, the Benelux countries, Denmark and Cyprus. Currently, Greece is in first place but ex post monitoring of corruption issues might overwrite this preliminary result.



2. diagram: Percentage absorption forecast to the deadline (n+2) (Self-drawn based on the data from the Regional and Urban Policy Finance and Budget Unit of the European Commission. The over-100 percent access ratio on the diagram merely theoretical, but the reassignment of development

funds to benefit the high-performing member states it could actually become true in the programming period of 2014–2020.)

3.2 The forecast lists Ireland, Sweden, Austria and France in the category of countries destined to lose 5 to 15 percent of their funding allocation. These countries do not receive funding from the Cohesion Fund, which tends to act as a counter-weight for the other funds. Countries that do receive Cohesion Fund monies and are in this category anyway are Poland (the only V4 member), Latvia and Spain. What makes Poland even more interesting is that six months ago, available data and trend projection had forecast that it would be able to access the entire amount. But then it was only able to access 3.8 percent funds over the past six months. Only Hungary (2.8 percent) and Slovenia (1.8 percent) did worse, putting them in the "danger zone".

3.3 This brings us to the category where significant risk is anticipated. There are seven countries in the group that are unlikely to be able to use 15 to 30 percent of the Development Fund. In order of ascending risk level they are: Malta (72 percent), Bulgaria (75 percent), the Czech Republic (77 percent), the United Kingdom and Slovenia (both 79.6 percent), and Italy and Hungary (both 80.6 percent). As of last November, Belgium had also been in this group, but then it accessed 15.5 percent of its allocation within the last six months. Denmark, with the highest semi-annual absorption rate, managed to access 19.8 percent, meaning that it accessed one-fifth of its overall subsidies allocated for the seven year timeframe within the past six months.

3.4 Two countries, Slovakia and Romania, appear on the verge of losing over 30 percent of their allocation. To date Slovakia has accessed 53 percent of its allocation and an extrapolation of the trend of the past two years suggests that it will not be able to access more than another 15 percent before the end of 2015. As far as Romania is concerned, it is probable that it will be able to access another 24 percent of its money by deadline. However, over the past seven and a half years is has managed to access less than half of the resources from any of the funds.

The 2014–2020 Multiannual Financial Framework in light of quality spending

4.1 Efficiency or "quality spending" for project planning and resource allocation became spotlighted because of the economic recession. The first report to evaluate the current project period and propose reforms for the next one was written by Fabrizio Barca in 2009, at the request of the then Regional Affairs Commissioner, Danuta Hübner (Barca 2009). As rapporteur he took a very clear stand in favour of quality spending and labelled any coordination negotiations between member states other than ones aimed at

the efficient allocation and use of resources as "pathetic debates". Next came reform proposals initiated by groups of member states called "Friends of Better Spending" and "Friends of Cohesion", followed by a 10-point proposal prepared from the vantage point of the European Commission (Hahn 2013), all of which contained recommendations on quality spending reflected in the legislative package for the 2014–2020 Multiannual Financial Framework eventually adopted.

4.2 The legislative package (EP et EC 2013) determining how the €325 billion convergence fund is spent includes the following new features to facilitate efficient fund use: Member states have to first meet several preliminary (ex ante) conditions. For example, they must have valid public procurement regulations in place for each area and – even more important – they must have a strategy (really a foundation) in place for each sector before any development programme or project can be implemented in the sector. Furthermore, the target systems and strategies of the different levels need to interlock and do so in a way that eventually meshes with the general EU2020 strategy of the European Union.

4.3 Well-defined target indicators also need to be set for each project and the outcome indicators need to demonstrate the broader objectives of each project. Indicators for the objective measurement of actual implementation (for example, road/km actually built) also need to be specified. Inspections will be conducted in 2017 to determine whether the intermediate objectives are met. If there are significant delays the Commission may request that the member state concerned make corrections, or in an extreme case, may initiate a correction in the funding.

4.4 A "performance reserve", which was finally fixed at 6 percent, officially targets "better spending". This reserve can be accessed to cover the implementation of programmes and projects that are found to be on schedule as of 2019, to can be used to cover spending up to 2023. The "n+3" rule will be applied equally to all member states which in turn means that implementation of projects launched in 2020 may be allowed to run until 2022–23. This latter change might have a beneficial effect on the funding access contest experienced in the period between 2007 and 2013 and cited in the first chapter. This competitive atmosphere ended up shifting the action towards quantitative spending and away from efficiency.

Conclusion

Satisfying the demands for quantity and quality at the same time is a real challenge even for the founding EU members. Given the global challenges and the escalation of competition, it might be necessary to re-think the question whether to further develop our self-made system of rules and regulations by introducing minor reforms and keeping our own hands

tied (as we have done in past decades) or applying a whole new approach to prevent the crushing of our development policy under the twofold pressure coming from the net contributors and their mostly justifiable demands for accounting the money and the also justifiable proposals of the net recipients. The scope of the study is not so wide, but the other aspects of net contributors and net receivers – like the regularity, transparency of the spending – should also reconsider in favor of better using.

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