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Cooperation on Cohesion Policy: Mission Impossible for the Visegrad Group and Germany

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The EU budgetary discussions focus on numbers, with Member States calculating their net positions. But the EU budget, and especially cohesion policy, is not simply a division of common means. It is designed as a complex system of measures to enable the structural transformation of EU regions and make them globally competitive. Germany and the Visegrad Group (V4) have divergent interests regarding the size of the budgetary framework, but they can join forces to make more effective use of the structural funds.

The V4 countries are net beneficiaries of the EU budget, not least thanks to investments made under cohesion policy. These countries are gathered under the Friends of Cohesion banner, and naturally support a bigger budget with strong cohesion-related items, sometimes making detailed suggestions as to their requirements on their possible future allocations. Poland aims to receive €96bn (PLN 400bn) between 2014 and 2020; Hungary requests at least the same amount of money as it received from the current Multiannual Financial Framework through 2013. The net payers to the EU budget reject the demands for bigger budget. These opponents of the Friends of Cohesion group have named themselves the Friends of Better Spending and count Germany amongst their core members. They want to reduce the common means, including cohesion-related funds. Thus any serious coalition-building between the V4 countries and Germany will probably come by focusing on the substance of cohesion policy rather than on the numbers.

Towards Smart Spending. At its inception, cohesion policy was designed to be a simple solidarity or transfer fund for the poorest EU members and, afterwards, for the poorest regions. However, its design has evolved significantly. The funds currently pay for the promotion of national and regional medium-term strategies drawn up in tandem with EU institutions. The next Multiannual Financial Framework would further advance this process by creating stronger links with the European Semester.

The V4 countries are not currently economic leaders within the EU, let alone worldwide. Their GDP per capita is still far below the EU average, and their competitiveness leaves much to be desired. For historical reasons, the Global Competitiveness Index 2012–2013 ranks these countries between 39th and 71st—the lowest among developed nations. The other competitiveness-related rankings tell the same story. But it is difficult to neglect the progress of these countries in improving their fundamentals, achieved partly thanks to European integration, and funding within the framework of cohesion policy.

The design of the current financial perspective thus facilitates the catch-up process in the V4. For instance, cohesion money in the Czech Republic has made firms more innovative and improved the development of high-tech production. In Poland, the most visible result of cohesion funding is an improvement in transport infrastructure coverage, which contributed to a decreased of travelling time of up to 17% in several counties, but human capital is also being strengthened, thanks to the development of scientific facilities. Most tellingly, Polish GDP is estimated to have grown by about 0.7 additional percentage points due to the funds, proving that the targeted transfer of just 0.3% of EU GDP can provide positive stimulation to the European economy if only by offering proper incentives to local or national agents. The benefits of cohesion spending spill over to the entire EU.

For instance, the European Commission estimates that each euro spent by Poland within cohesion policy results in €0.38 of additional exports from the EU-15.

The success of the V4 countries is a consequence of sound strategic planning on how to spend the means. Governments and local authorities have made an effort to analyse long-term national needs and build an effective administrative implementation system. This is contrary to experiences in Greece and Spain, where several infrastructure facilities (including some airports and even some parts of highways) built with common funds are currently almost unused—suggesting that the V4 countries are right not to invest too heavily in infrastructure. These two poles of experience in using the common funds show that simply pumping money into the economy brings few results, and a thorough plan with good implementation is the key to success.

Recommendations for Possible Fields of Cooperation. Most Member States currently agree, at least in general, that the quality of common spending needs to be improved and oriented toward growth and competitiveness. Germany in particular is encouraging all Member States to use the common funds in the most efficient way, and has proposed certain solutions on better spending, mainly concentrated on cohesion policy. The V4 states are also naturally interested in improving the quality of cohesion spending, because it would justify the significance of this spending item in the longer term and would also help to ensure that other states make the most of the transfers. Moreover, this kind of cooperation would be advantageous in the context of the current MFF negotiations, as the V4 would finally change their label from cohesion supporters to advocates of smart spending, without too significant an evolution in their goals.

An initial field of cooperation should be support for conditionality, the mechanism designed to ensure that money is spent as intended and that flanking reforms are undertaken. This should include both ex-ante and macroeconomic conditionality. The first ensures that national and regional authorities draft high-quality development programmes, and provides incentives to improve administrative capacity. The V4 countries would not have relatively great problems in satisfying this condition, and in their situation the cost of this proposal would not be as unbearable as it would be elsewhere. The second line of conditionality currently raises doubts among the V4 states, not because they do not hold to macro-economic discipline, but rather because they question whether regional spending should be made contingent upon economic policy at the national level. This, however, makes the issue ripe for compromise between the V4 and Germany. Together, they should look for common ground on the scope of the funds covered by these conditionality mechanisms, the cases in which they should be applied (including whether conditions should be relaxed during an economic downturn) and the body, if any, which will decide on possible suspensions.

Against this background, a performance reserve, which grants additional money to the regions that perform best in implementation, might provide a further base for compromise. Such a mechanism provides a good incentive for the optimisation of funding. However, due to the lack of time left to finalise the negotiations, talks on this issue should be accelerated and all parties should work to overcome concerns that this reserve mechanism would encourage less ambitious strategies at regional level.

Another area for cooperation would be the coupling of cohesion policy and the European Semester. This is proposed by the European Commission, but details, especially concerning streamlining the financial programming to country specific recommendations, are lacking. A total streamlining of cohesion policy to the European Semester is not adequate because not all of the EC recommendations refer to cohesion policy objectives. Therefore, one avenue for cooperation would be to support the evolution of the European Semester towards a competitiveness-building tool enhanced with cohesion policy-related funds. Germany and the V4 should clarify all details now, but if they fail to do, they still have time to set in place markers for the budget review tabled for 2016.

Cooperation in the medium term should also focus on creating a new council for deliberating on cohesion-related matters. It is incongruous that such a big spending item does not have an appropriate high-level political forum. Currently, any cohesion-related issue that requires resolution is postponed, dropped, or discussed in the General Affairs Council. The creation of such a council would accelerate the process of policy improvement. It would be particularly beneficial to the V4, raising the standing of the funds and ensuring spending for further funding periods. For Germany, the establishment of such a political body would allow it to increase its influence over countries in which the quality of spending on projects is below par.