

## **THE EUROPEAN UNION COHESION POLICY AND THE LIMITATION OF THE NEGATIVE RESULTS OF THE ECONOMIC CRISIS**

**Inga Kawka**\*

### **ABSTRACT**

The European Union Cohesion Policy supports structural transformations in its member states and regions. These transformations play a key role in deepening the European Union economic, social and territorial integrity. At the same time the European Union Cohesion Policy, thanks to its stable character, which is a result of long-term planning, became one of the European Union and its member states' intervention instruments in the economic processes in situations when there is a slump in the economy. The European Union Anti-crisis Package introduced changes which liberalise, simplify and accelerate the implementation of this policy. It is assumed that the changes should result, among other things, in the acceleration of project realisation as well as in an increase in companies' efficiency and competitiveness.

### **Key words:**

European Union law, European Union Cohesion Policy, economic crisis.

### **ABSTRACT**

Polityka spójności wspiera przekształcenia strukturalne w państwach członkowskich i regionach UE. Przekształcenia te mają kluczowe znaczenie dla pogłębiania integralności ekonomicznej, społecznej i terytorialnej UE. Jednocześnie polityka spójności, dzięki swojemu stabilnemu charakterowi wynikającemu z długoletniego planowania, stała się jednym z instrumentów interwencji Unii i państw członkowskich w procesy gospodarcze w momencie spadku koniunktury. Unijny pakiet antykrzysowy wprowadził zmiany uelastyczniające, upraszczające i przyspieszające wdrażanie tej polityki. Celem tych zmian jest m.in. przyspieszenie realizacji projektów oraz zwiększanie wydajności i konkurencyjności przedsiębiorstw.

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**Key words:**

prawo Unii Europejskiej, polityka spójności Unii Europejskiej, kryzys gospodarczy.

## **1. SOLUTION OF RISKS AND CRISES IN ECONOMIC ENVIRONMENT**

### **1.1. RISK MANAGEMENT AND MAINTAINING PERFORMANCE AND COMPETITIVENESS OF ENTERPRISES**

The European Union Cohesion Policy supports structural transformations in its member states and regions. These transformations play a key role in deepening the European Union economic, social and territorial integrity. During the programming period 2007-2013 the European Union Cohesion Policy, in accordance with Regulation 1083/2006, is to concentrate on three aims: convergence, regional competitiveness and employment as well as European territorial cooperation[1]. Convergence is the primary aim, to which most funds have been allocated. It is a result of a considerable increase in economic and social disproportions between the European Union regions, which became visible after 1<sup>st</sup> May 2004, when 12 new member states joined the European Union; these regions are much poorer than those of the former 15. The basic instruments of conducting the Cohesion Policy are structural funds and the Cohesion Fund. The principles according to which the funds work and the strategic priorities of the Cohesion Policy are accepted for a long-standing period to enable the stabilization of legal solutions and the realisation of long-standing structural aims. As a result of the financial and economic crisis, which started in 2008 certain changes were introduced during the program period, so that the Cohesion Policy, whose budget was 347 billion euro for the years 2007-2013, could support member states' budgets and become one of the elements of the European Economic Recovery Plan [2].

The amendments which were introduced to the European Union law and which focused on the introduction of the Cohesion Policy led mainly to the acceleration of the release of European funds, the simplification of the procedures for the introduction of the Cohesion Policy as well as to the support for smart investment [3]. An amendment to the European Union law regarding the above mentioned issues was announced in three different documents, which were accepted in October and November 2008; these documents were drafted in response to the crisis: *From financial crisis to recovery: A European framework for action, A European Economic Recovery and Driving European Economic Recovery* [4].

The European Union recovery plan focused on restoring and maintaining a stable and reliable financial system, investing in the real economy and supporting people at the time of the crisis [5]. As far as the last two aims are concerned the Cohesion Policy turned out to be the basis for their introduction. The amendments which were made to the laws regarding the Cohesion Policy were to accelerate actions which would, among other things, enable people to better their qualifications, stimulate investment in the research sector, promote conditions, which would favour

innovative enterprise and access to high speed Internet. The European Union Social Fund was mentioned as one of the instruments used to help people at the time of the crisis. It was assumed that “the Fund can respond to crisis-driven needs, e.g. to improve matching of labour demand and supply, support joint initiatives by social partners, promote social innovation and employment partnerships, or strengthen public employment services” [6].

The first amendments to the European Union law regarded revenue generating projects and were introduced by means of Regulation 1341/2008 [7]. They reduced beneficiaries’ charges and lowered the costs of administration. As a result, the duty to examine the financial gap and to lower subsidies if required as well as to monitor the generated income was confined to the projects financed by the European Regional Development Fund and the Cohesion Fund whose total cost exceeds 1 million euro.

In addition, in the case of many programmes for the years 2000-2006 the deadline for acceptance was postponed to assure a larger funds absorption, moreover, the pace of granting advance payments was accelerated together with the amount of advance payments paid out to beneficiaries to assure support during recession. In accordance with Regulation 284/2009 [8] the value of advance payments was increased for the 2009 programmes (for member states on 1<sup>st</sup> May 2004 or later) from 2% to 4% of the structural funds input for the operational programme. In accordance with the Fifth Committee Report, in 2009 advance payments were paid out in the amount of 11,25 billion euro, out of which 6,25 billion euro was paid out in answer to the crisis. It should be stressed that the expenditure structure was, to a large extent, in agreement with the European Economic Recovery Plan and the Europe 2020 strategy aim [9] which was smart, sustainable and inclusive growth. In accordance with the Fifth Commission Report [10], around 60 billion euro was allotted for projects in the regions connected with the strategy. Until 2009 over 36% of the funds which were made available in the above-mentioned programme period was allocated to support business, and 25% was invested into human capital. Moreover, Regulation 284/2009 introduced changes which contributed to a wider implementation of financial instruments thanks to the support of the European Investment Bank and the European Investment Fund, the regulation also led to an increase in administrative abilities to implement funds, and it also made it possible to treat a nonfinancial input, depreciation, and general costs as expenditure which could be qualified for support.

The greater flexibility of the laws which regulate the implementation of the Cohesion Policy was also planned for Regulation 539/2010 [11]. Among other things, to simplify the realization of large projects a common threshold was agreed upon to define what was meant by a large project, namely, a project for 50 million euro regardless of the fact if it was an environmental protection project or an infrastructural one, and it was also made possible to finance a large project by more than one operational programme.

Because of the fact that the Cohesion Policy is implemented in accordance with the principle of territorial level of realisation [12], the responsibility for the implementation of the Cohesion Policy is placed on member states in accordance with the institutional system of each country. Thus, amendments to the laws which concern the Cohesion Policy also cover domestic law. The amendments result from the

European Union law, but they are also initiated by member states; the amendments mainly concern the effectiveness and efficiency of the implementation of regional politics at a domestic level [13].

The current economic crisis has also influenced the context, in which the Cohesion Policy functions [14]. The difficult economic situation has undermined critical theses concerning the Cohesion Policy, which were expressed in the 2003 André Sapira Report [15] and in the 2009 World Bank Report [16]. These reports regarded the European Union Cohesion Policy to be inefficient.

The crisis made it clear that there is a need for a policy, which would not only support the poorest regions and do away with regional disproportions, but which would also support Europe's competitiveness in the world. The joining of these two aims is not obvious to everybody. There are arguments, for example, that the European Union's competitiveness could increase mainly thanks to the subsidising of the riches regions, which could best use these funds [17]. The joining of these two aspects of the Cohesion Policy should be secured in the Programming Period 2007/2013 due to the principle of earmarking [18], and should consist in stimulating the developmental potential of various regions; it should not only confine itself to allocating funds to the poorest regions. In accordance with the principle of earmarking, financial help from the funds should be directed at the priorities of the European Union, which were defined in the renewed Lisbon Strategy: the promotion of competitiveness and the creation of new work places. For these purposes 60% of the funds should be allocated within the aim: convergence and 75% of the funds should be allocated within the aim: regional competitiveness and employment. This is a duty of all the countries which joined the European Union before 1<sup>st</sup> May 2004. However, the 12 new member states also allocated 59% of their funds to the priorities of the renewed Lisbon Strategy [19].

Better concentration on the European Union aims and the priority premises, which were outlined in the Europe 2020 strategy, is also important when it comes to the shaping of the Cohesion Policy for the next Programme Period (2014-2020). It is expected to accelerate economic growth of the whole European Union and enable it to find a way out of the crisis. Moreover, in an inspection of the European Union budget [20] it was emphasised that changes, which would increase the efficiency of the Cohesion Policy were necessary; at the same time it was noted that more emphasis should be placed on the results and that the European Union member states should oblige themselves to implement reforms. In the face of the economic crisis it is necessary to debate on the positive results of the Cohesion Policy as well as on the costs that its implementation generates.

The money that comes from the European Union funds eases the negative results of an economic crisis, which is caused by a limited access to capital and performs a stabilizing function when there is a slump in the economy [21]. The Cohesion Policy turned out to be a long-term, stable instrument of supporting growth in the economy in unfavourable conditions, at the time of an economic crisis. It concerns mainly the poorest regions of the European Union, which are receiving subsidies within the aim: convergence, for example, Poland and Slovakia. The Cohesion Policy proved to be an effective remedy for the crisis because it combines flexibility with long-term planning; moreover, it increases economic and social

convergence between the European Union regions and simultaneously supports the competitiveness of European businesses, helps them create better quality goods and secures new work places.

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Článok recenzoval:  
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