REGIONS & CITIES MAGAZINE 2018

euobserver

A deep dive into the EU regional funds

October 2018

euobserver

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the color club
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ADVERTISING
EUobserver Magazine
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1000 Brussels
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EUobserver Magazine
Rue Montoyer 18B
1000 Brussels
Belgium

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PUBLISHER
EUobserver.com ASBL
www.euobserver.com

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Cover Photo
Peter Teffer

A deep dive into the EU regional funds

The European Union has allocated around €350bn for the 2014-2020 period to cohesion policy – accounting for a full third of the EU budget. Only the EU's agriculture policy receives more.

Considering the size of the funds – aimed at improving the economic situation in the EU's regions – the attention us journalists give them is disproportionately little. Part of the reason is that it is difficult to determine how successful the funds are, as Eszter Zalan explains in her article.

But it could also be that journalists have some attitudes in common with fraudbusters. The recipient regions are far away for Brussels-based reporters, while local ones may perhaps give higher priority to investigating proper spending of the national budget, than of the EU budget. Some argue that there is simply "too much money".

Just before this magazine went to print, the European Court of Auditors published a report saying that there is not enough focus on what projects that received funding actually achieved.

And I myself was quite surprised that in the rich Dutch city of Amsterdam EU funding was spent on the development of a hotel. But the European commissioner in charge of regional policy, Corina Cretu, told Eric Maurice that the rich regions should continue receiving cohesion money. "Even in the richest regions we have pockets of poverty," she said.

Finally, you will read articles by Nikolaj Nielsen and Eszter Zalan about the future of cohesion policy, discussing what level of government will be in charge and how much budget cuts the funds will face.

Happy reading!

Peter Teffer

A tourist's guide to EU-funded Amsterdam

Photo: Peter Teffer

When it comes to projects paid for by EU regional funds, most people think of roads in Romania or bridges in Bulgaria. But richer regions also receive money. EUobserver takes you on a tour of selected projects in Amsterdam.

By Peter Teffer

Start your visit to Amsterdam on the northern side of the Dutch capital's central train station by taking the free ferry across the IJ river.

As you approach the northern part of Amsterdam, you will see a large white building, which some say looks like a frog. "The Eye" film institute's new building, opened in 2012, cost around €38m. It received €1.5m of EU funding from the European Regional Development Fund (ERDF).

The ERDF has distributed more cash in 'Amsterdam Noord' - an area which because of its watery separation from the rest of Amsterdam was for a long time seen as not truly belonging to the city.

But several big industrial players departed the waterfront, leaving it open for new development. Housing cooperative Open Haard received €2.7m to modernise an area of mostly abandoned company buildings.

According to area developer Bart Bozelie the project – which also received €10m in private investment – has helped put the northern district on the map. "The ERDF subsidy definitively contributed to that," he told EUobserver in an emailed statement. He said that the project would have gone ahead anyway without the ERDF subsidy, but then it would have had "a lower ambition level".

During the current funding period (ie 2014-2020), Amsterdam's Noord district is also benefiting from a €33m co-financing to develop economic activity in a city park.

The money will be used to renovate pavilions and two former gas stations. One former gas station, recently painted yellow, was already defaced with graffiti. The building is now used for neighbourhood activities like yoga, and as one passer-by told EUobserver, bicycle classes.

Biking is of course quintessentially Dutch, and you can also do it on EU-funded bike paths.

Head south-east to the Diemerbos forest, and you will be able to ride on what €119,386 of ERDF co-financing could buy. The project was carried out by Recreatie Noord-Holland, a company owned by the province of Noord-Holland.

Senior project manager Wim Roozenbeek told EUobserver by email that the money was used to connect Amsterdam with a neighbouring region. The project "apparently" met ERDF grant conditions, "which led to the decision to apply". He said that without the ERDF subsidy, a higher contribution from the province or from cities would have been needed.

While you are in the south-east of Amsterdam, visit World of Food, an indoors food court in a former parking garage.

The cooks producing multicultural street food desperately need all clientele they can get. World of Food opened in 2015, following a €418,800 ERDF subsidy.

It was advertised as offering employment to local entrepreneurs, but many of them have already left. "We are all disappointed," said one of them, who did not want to see his name in print. "If you let yourself be heard, then they will bully you," he said, referring to the private company that owned the place. The entrepreneur said that there had been mismanagement, leading to doubling

World of Food: €418,800
Photo: Peter Teffer

Noorderpark: €33m
Photo: Peter Teffer

purchases in ventilation and heating systems.
His story was corroborated by another, who confirmed that rent and service costs for the cooking units have skyrocketed, despite an initial promise that the first five years prices would remain stable.

"I have to pay €2,400 in rent, and €448 in monthly dues – but I have no idea what that money is spent on. You are not allowed to ask questions, just pay," he said.

The first noted that he had wanted to contact the "ERDF people" but that he had no idea who to turn to.

Despite the difficult situation for the entrepreneurs, the food court did manage to fulfil some societal goals.

"White people used to be afraid of [Amsterdam] south-east," said one of the entrepreneurs, referring to the large share of second-generation immigrants living there. "But the area's reputation has improved."

CHURCHES AND MICROBES

Returning to the centre of Amsterdam, you can start visiting some museums. In September 2014, the Micropia museum opened, which claims to be the only museum in the world devoted to the world of microbes. It is part of the Artis zoo, and received €2m in ERDF subsidies. Its spokeswoman told EUobserver that while the zoo is open about how many external subsidies it receives, it does not comment on how they are spent because that is something "between the subsidy provider and the recipient".

Opposite the zoo is the Dutch Resistance museum, which since October 2013 has a dedicated section for children, which was built with €300,000 of co-financing by the ERDF.

A short bike ride from here is the Our Lord in the Attic museum, which received €3.8m for a thorough renovation. The museum shows how in the sixteenth century catholic churches moved to residential houses and homes – the city had become Protestant, but non-Protestant religions

Hotel "The Exchange": €4.8m
Photo: Peter Teffer

were tolerated as long as they were not visible from the outside. The museum houses an actual church in the attic.

"We heard about this museum from our daughter, who went here two or three years ago," said Sarencki Dariusz, a Polish tourist. He noted that his country had also profited from EU investment in infrastructure like roads, but had no problems with richer regions receiving ERDF money. "Why not?" he said.

ADDED VALUE?

But the projects do raise questions.

Is EU money really needed to set up museums in Amsterdam, a city that already is overflowing with tourists? Gerard de Boer is senior subsidies advisor for Amsterdam. He noted that there was a rationale for each project. The Our Lord in the Attic museum helped bring families to a neighbourhood that normally hosts those interested in the strip clubs and hookers. "It was important that the red-light district also began receiving a different type of tourists," said De Boer.

Birgit Buchner, director of the museum, confirmed that the museum attracts visitors that otherwise would not visit the red-light district. "This museum's visitors cause few problems and adds diversity to the neighbourhood", she said in an email to EUobserver.

Buchner noted that the ERFD subsidy was "very important", but added it was very difficult to say what would have happened without it.

According to Eurostat figures, greater Amsterdam had a gross domestic product (GDP) in 2015 of almost €100bn. When dividing the Netherlands into 40 regions using the so-called NUTS 3 classification, greater Amsterdam is the region with the highest GDP – producing 14.5 percent of the country's output.

De Boer acknowledged that of course Amsterdam has a completely different economy than, for

Children's exhibition in the Dutch Resistance museum €300,000
Photo: Peter Teffer

Micropia: €2m

Photo: Peter Teffer

example, Bucharest, but stressed that the share of regional funding going to richer countries was much smaller.

"We use it to address deficits in our economy," he noted. In Amsterdam the ERDF money is used to reduce disparities within the city, rather than arrive at the end goal of EU regional policy: full cohesion between all regions. But that is allowed.

In effect, the money is used for classic regional policy. The question - what the added value was of receiving the money from an EU fund rather than a national one? - was something De Boer would rather not comment on.

EU-FUNDED HOTEL

Anyway. You must be tired after such a long day in Amsterdam. Time to check in your hotel. The Damrak street, which connects the station with the Dam square, has eight on a strip of less than 50 metres, but what better place to stay than in boutique hotel "The Exchange", which markets itself as a "fashion hotel with rooms dressed liked models".

For years the Damrak street had a bad reputation, but it is being cleaned up.

In the ERDF period 2007-2013, a real estate company was granted two subsidies totalling at €6.2m to help buy 13 buildings and renovate them. In the same period, another €4.8m of ERDF money was granted as co-financing for the development of "The Exchange" hotel.

It is not the cheapest hotel in the street, but after spending the night here, you can say that you slept in a hotel part-financed by EU taxpayer money. However, the hotel's spokeswoman said she did not know the hotel had received EU funding.

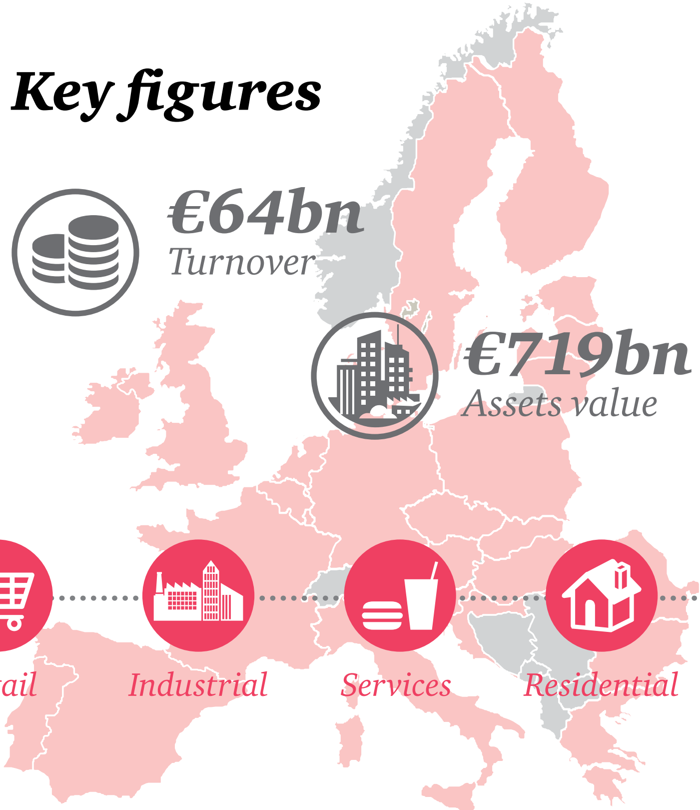
Westerkerk: €327,858

Photo: Peter Teffer

Listed real estate - a large contributor to the EU economy

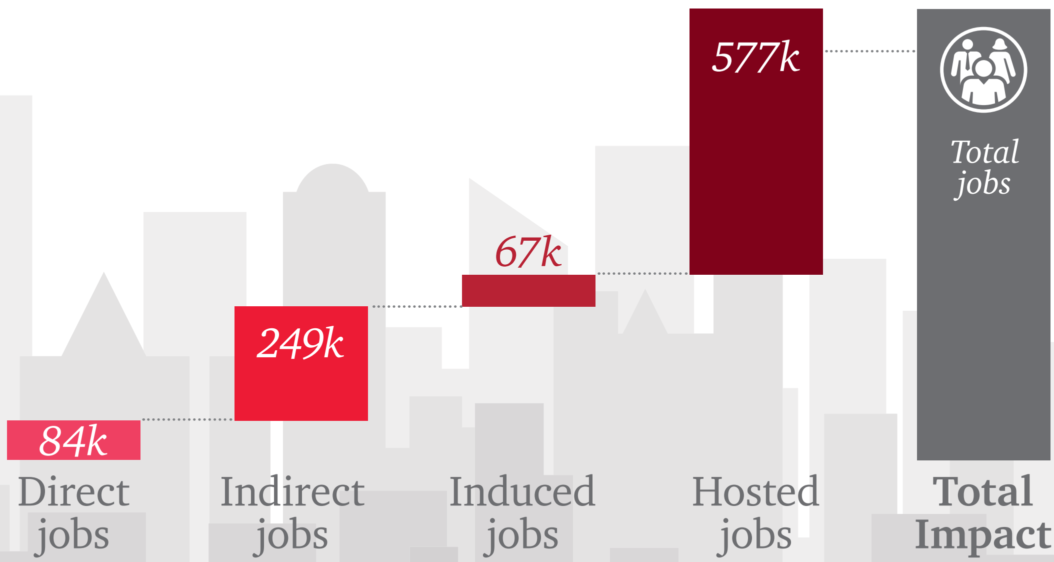
The European Public Real Estate Association (EPRA) has mandated PwC to estimate for the first time the total jobs footprint of the listed real estate sector for the EU28. It includes direct, indirect and induced jobs as well as jobs hosted by retail surfaces.

Key figures



Activities

Offices · *Retail* · *Industrial* · *Services* · *Residential*



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The big European budget battle— who is fighting for what?

EU member states are set for bitter negotiations over the next long-term budget for the bloc - where several issues pit eastern and western European countries against each other.

Regions that have seen economic growth are expected to get less funding
Photo: European Parliament

The EU is gearing up for its most complex and toughest haggling - as diplomats start to discuss the next long-term EU budget that will define funding for citizens and regions.

According to the traditional dynamic of budget negotiations, participants start out with hefty calls for better, more efficient policies, high principles and common goals.

By the end, however, talks gradually descend to 28 countries bickering over money. It is not a pretty sight, but luckily only happens every seven years.

This time there will be only 27 states (with the UK leaving the bloc next March) contributing to and receiving from the budget until the end of the cycle at the end of 2020 - presuming a EU-UK divorce deal is agreed soon.

The European Commission unveiled its budget proposal in early May with the aim of wrapping up talks before the European elections in May 2019 – an unrealistic scenario.

The EU executive faced two challenges: plug the hole struck by the departure of the UK, which contributed around €14bn annually to the budget, and find money for new challenges, such as migration and security, while maintaining key traditional EU policies on agriculture and economic convergence.

Despite early warnings from some net contributor countries, such as the Netherlands and Austria, to draw up 'a smaller EU budget for a smaller EU', the commission increased the overall budget figures slightly.

The biggest net contributor, Germany, supported the commission's approach, which irked fiscally disciplined allies of Berlin.

The EU executive proposed a €1,135bn budget for 2021-27 in an effort to boost funding for defence, migration, and research in the post-Brexit EU. This means a €192bn increase compared to the previous multi-annual financial framework (MFF).

In 2018 prices, it accounts for 1.114 percent of the EU-27's gross national income (GNI), compared to the one percent under the current budget with the UK still a member of the club.

While both cohesion and agriculture policies face cuts, the commission proposed to boost funding for the Erasmus student exchange program, digitalisation, research and development, and external border security.

The Netherlands, Austria, Sweden and Denmark, all net contributors, argue that this is too much, while countries in eastern Europe which directly benefit from cohesion funds do not want to see further cuts in these two key policies of the EU - which account for about 70 percent of the total budget.

PIVOTAL BATTLE

That will be the pivotal battle between the two groups of countries.

Central and eastern European states also feel targeted by the commission's proposal on other fronts.

The allocation of EU cohesion funds, aimed at poorer regions, will this time tilt towards the southern counties, such as Italy, Greece, and Spain, which have gone through a deep financial and economic crisis, while central and eastern European economies have seen growth.

The commission argues this proves the success of cohesion policies: that these largely former communist economies are catching up with the richer part of the EU.

However, countries that are set to lose the most, such as Hungary and Poland accuse the EU executive of attempting to punish countries that have clashed with the EU executive over political and legal issues, such as the independence of the courts. These two countries have also been the loudest critics of the EU's migration policy.

The EU commission says that GDP growth is still the main indicator when it comes to calculating allocations.

But some central and eastern European member states have criticised the introduction of new criteria to determine the sum for member states, for example introducing measures on youth unemployment, climate change and the reception and integration of migrants.

EU Commission president Jean-Claude Juncker said the cuts to cohesion and agriculture policies are 'no massacres'

Photo: European Commission

Copies of the EU budget in the European Parliament in 2005

Photo: European Parliament

Central and eastern European countries are also worried about a possible new mechanism the EU executive wants to introduce to discipline countries where the judiciary has been put under political pressure.

The commission wants to be able to "suspend, reduce or restrict access to EU funding" in a proportionate manner to protect EU investments and European taxpayers' money. But plans for the new procedure, the so-called "conditionality" clause, are still vague.

REBATE ROW?

Another front where member states are expected to clash is the issue of rebates. The UK's controversial rebate, the partial refund for their payments into the EU budget first negotiated by Margaret Thatcher in the 1980s, will disappear with Brexit.

In a complex mechanism, Germany, the Netherlands, Austria, and Sweden, who are also net contributors, pay only a share of the UK's rebate.

The commission is arguing that with the UK rebate gone, all rebates should be gone. Yet the net contributor countries want to retain their own rebates, arguing that they need a correction mechanism so that their contribution does not inflate.

The ever-present debate between those who want the EU to have the ability to tax independently, and those who want to keep the right to tax solely in member states competencies, is emerging again this time too.

The commission is proposing that customs duties, contributions based on value-added tax, and revenues from the emission trading scheme (ETS) to be collected at EU level, not a national level, plus revenue from the European Central Bank issuing money.

Over the summer, the commission outlined the details of its planned budget to EU diplomats - but as the European elections of May 2019 are approaching fast and the campaign intensifying, there is little chance for any significant debate until after the poll.

The new budget will then most probably be voted on by a new European Parliament - one that is expected to see a surge in populists, who have very different ideas about EU priorities.

There is an ever-present debate between those who want the EU to have the ability to tax on its own, and those who want to keep the right to tax solely in the hands of member states

Photo: European Parliament

Commissioner Cretu:

THE EU BUDGET IS 'VERY EMOTIONAL'

Despite Brexit and new priorities, it is important to keep EU funds for all regions – rich and poor – argues the regions commissioner. But more controls, including a link to rule of law issues, are part of the discussion.

By Eric Maurice

Corina Cretu has been European Commissioner in charge of regional policy since November 2014. The centre-left Romanian was previously a member of the European Parliament.

EUobserver: How would you define what the EU is trying to achieve in the European regions with its cohesion policies?

Corina Cretu: As commissioner for regional policy, I'm responsible for 276 regions from 28 countries. It has not been an easy exercise to define the new budget.

The Multiannual Financial Framework (MFF) is very emotional. But this time it was much more than that because we have Brexit - which means we have lost the second-largest contributor - and new challenges, like migration, cross-border security, defence.

I think we did a great job in proposing a package for a modern, simpler, flexible cohesion policy that covers all regions.

We have managed to keep an envelope that is big enough to keep funding for poorer regions - more than 70 percent is going to poorer regions - and also for the rich ones. These are the policies that show the most tangible results in the life of citizens.

Given this new context, what did you try to keep as core programmes?

I have visited most of the countries and regions. And the most important for me was to make cohesion policy much more flexible, because I'm always sad to see people, especially young people, who are giving up using our funds because of the complexity of the rules, bureaucracy and very long procedures.

We have now a single set of rules, and the new regulation has 50 percent less words than the previous one. We also reduced the number of priorities, to five priorities instead of eleven: 'smarter Europe', 'greener Europe', 'connected Europe', 'social Europe', and 'Europe closer to citizens'.

You cannot decide from Brussels and sometimes even from the capitals what is needed or not needed for the citizens and the localities.

Most of the regions have been funded for about 40 years, and others for only 14 years - or less. How would you compare their evolution, and their situation now?

This is, in a way, the irony of this policy.

The ERDF (the European Regional Development Fund) was founded under the pressure of the UK and Italy, when mines in Wales were closing. I don't know how many people who voted for Brexit in Wales knew that their parents or grandparents had a job in 1975, and after, due to EU funds and reconstruction we made there.

Coming back to your question, I think there is a difference, because it is one thing to use these funds for 45 years, and another thing to use them for ten years.

In terms of administrative capacities, in terms of experience, and of course in regions that are using funds for a long time, they have finished these problems with infrastructure - like highways in Spain or in Portugal for instance. We have a lot of needs in eastern Europe.

In the rich regions, we invest mostly in innovation, and in research, which is very important. Of course, in eastern Europe they still have needs on basic waste treatment management, water management, infrastructure and, of course, job creations.

Does it make sense to continue to fund rich regions, when there is less money available overall for the budget?

It was very important to keep these policies for all regions, because I don't think that we need new divisions in the EU, we have enough of them. And we have to be flexible. Even in the richest regions we have pockets of poverty.

Rich regions could share their experience. I'm a big fan of the exchange of good practices.

'It was very important to keep these policies for all regions, because I don't think that we need new divisions in the EU', the commissioner insisted.
Photo: European Commission

Sometimes in some countries they have money but they don't know what kind of projects to do. We have a peer-to-peer system, with people who work on the funds in all the countries, to help on administrative capacities, public procurement, or financial instruments. This exchange of good practices is very important - administrative capacity is more important than money.

How do you work with member states or regions to design projects when you give the money?

We decide the allocations member state by member state. We have partnership agreements, so we decide together where to invest, where money is the most needed.

Under the current programme, countries could change the priorities. I'm ready to change, because it's not possible to predict for the seven years. For instance, we changed operational programme with Italy to allow them to buy two vessels you have seen saving thousands of people in the Mediterranean.

But for the next period there will be a mid-term assessment to see where to allocate the money for the last three years.

The lack of administrative capacities is a reason why money is not properly used. Cohesion funds are also affected by corruption. Do you have better tools to control that?

We have zero tolerance for fraud or corruption. For us, it is a challenge to find the right balance between simplification, which is required by all the stakeholders and beneficiaries, and control of taxpayers' money.

A motorway in Poland. Eastern EU countries still have 'a lot of needs' in infrastructures, says EU commissioner Cretu.

Photo: Mikolaj Welon

Commissioner Corina Cretu: 'We have zero tolerance for fraud or corruption'

Photo: European Commission

We can rely on audits of member states, but at the same time we have our own audit - via samples because we don't have the capacity to control every project - but we also have Olaf [the EU's anti-fraud office]. So I really think that EU money is the most controlled money.

In the last year, according to the Court of Auditors, we had four percent of errors, and only 0.5 percent with financial consequences.

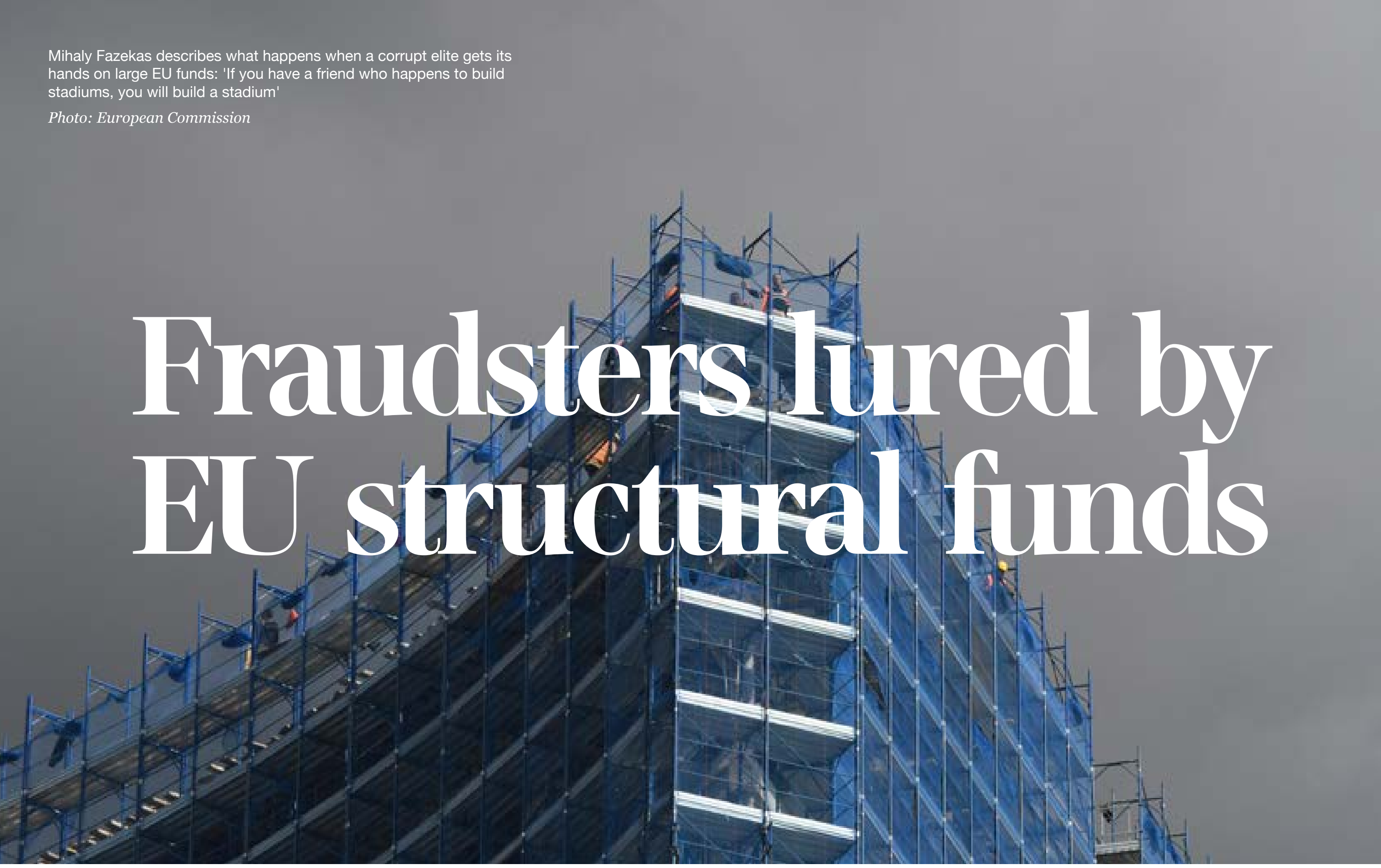
When there is corruption we recuperate the money because there is a financial correction. When we identify fraud, member states are asked to reimburse the money. So it's not a loss of money. But, of course, there is this impression and we have to fight this.

What do you think of the discussions about 'conditionalities' for EU funds, and the fact that some member states feel that they are being punished or disadvantaged by the new MFF proposal?

It is the fourth time we use the Berlin method [a mix of criteria agreed by member states] since 2000. I think it's not fair to say that they are punished.

If you take Poland and Hungary, this allocation is a recognition of the development and of what they have achieved. Poland's growth was less than 25 percent of the EU average, and now it is 75 percent. They [will receive] less money because of the economic development, it's not a punishment.

At the same time there is a discussion on this link between rule of law and the EU budget, but it's not included in this package. It could be included in a regulation [that would have to be adopted by the European Parliament], the commission is working on how not to leave space for abuses.



Mihaly Fazekas describes what happens when a corrupt elite gets its hands on large EU funds: 'If you have a friend who happens to build stadiums, you will build a stadium'

Photo: European Commission

Fraudsters lured by EU structural funds

It's the job of the European Anti-Fraud Office to investigate any corruption and embezzlement of EU-funded projects. But why are structural funds in particular so attractive to criminals?

By Peter Teffer

The leader of Romania's Social Democrat party maintains he is innocent.

But, according to Romania's National Anticorruption Directorate (DNA), Liviu Dragnea created an organised criminal group and defrauded EU structural funds.

Romania's fraudbusters had help in their case from the Brussels-based European Anti-Fraud Office (Olaf).

"Olaf conducted thorough investigations that we hope will have a strong deterrent effect," said the office's then acting director-general Nicholas Ilett in November 2017, when the accusation of the DNA was announced

Whether that deterrent effect will occur remains to be seen.

If proven, the Dragnea case - which is still ongoing - would only be one of many examples of the EU's regional support fund being hit by fraud last year.

"Fraud involving EU structural funds remained at the core of Olaf's investigative work in 2017," the office said in its annual report

By the end of last year, 73 of Olaf's 362 ongoing investigations were specifically on structural funds – making it the largest category four years in a row.

Other annual reports, by the European Commission, also indicate that cohesion funds are a significant target for criminals. Why is that?

Part of it has to do with the fact that regional support simply makes up a large share of the EU budget, Ilett told EUobserver in June, when he was still acting director-general of Olaf.

Some correlation between amount of spending and level of fraud is to be expected. "Of course it is more complex than that. It's also inherent in the nature of the spending," he said.

'Some member states will not qualify a situation as fraudulent until they've at least got an indictment, if not a conviction. Others will look at the file and say: this is clearly fraud, and tick it as fraud,' says Olaf's Nicholas Ilett

Photo: European Commission

"There is a system of shared management and that also can constitute a risk. Because there are more people involved in the decision-making process and you can have decisions taken quite locally, where there may sometimes be a risk of a lack of control, and a risk of patronage, nepotism, corruption at the local level," noted Ilett.

Mihaly Fazekas, researcher at Cambridge University, agreed, and pointed to the large amount of discretion given to local and regional authorities in distributing the EU funds.

"If you have a corrupt elite, discretion is good," the researcher told EUobserver. "If you have a friend who happens to build stadiums, you will build a stadium even if the village has no football club which is in the first league or no one watches football."

PARADOX

Fazekas is more of an expert on corruption than on fraud, but the two issues are closely related.

He noted that the plethora of administrative requirements for recipients of EU funds have an adverse affect. "While bureaucratic controls try to decrease corruption, inadvertently they make market entry harder – reduce the number of bidders, hence make corruption more likely," said Fazekas.

How much money is actually being defrauded from the annual EU budget for cohesion policy – and whether the problem is increasing – is hard to determine, according to Olaf's Ilett. "It's very difficult to measure over time. It's one of the things we know that we don't know," he noted.

The commission's Protection of the European Union's financial interests reports, or Pif reports, give some indication.

The report on 2017 said that EU member states reported a total of €320m of cohesion policy and fisheries funding as fraudulent irregularities. The 2016 figure was €237m, also for cohesion policy and fisheries combined. In 2015, when cohesion policy was still counted separately, member states reported €477m in fraudulent irregularities.

But Olaf's Ilett said the figures needed to be interpreted cautiously because there is no harmonised approach.

"The trouble with the PIF report figures is that it contains what the member states have declared, and within that there is a category of what they think is fraudulent," he said.

"Some member states will not qualify a situation as fraudulent until they've at least got an indictment, if not a conviction. Others will look at the file and say: this is clearly fraud, and tick it as fraud."

The EU's cohesion funds are a significant target for criminals

Photo: European Commission

'ALIEN' MONEY

Some academics have said the structural funds have a problem embedded in the design of the system: the money is coming from the general EU budget, but action to protect it against abuse will have to be paid by a national authority.

Researcher Agnieszka Aleksandra Murawska first pointed out in her 2008 book Administrative Anti-Fraud Measures within the European Union that any loss would be suffered by the EU budget as a whole, while investigating and prosecuting fraud requires investment from the national budget. The book was her dissertation at the European University Viadrina at Frankfurt (Oder).

"In theory, the member states should be interested in the correct functioning of the common market, but it is evident that particular interests of individuals, i.e. the voters, frequently prevail," she wrote. "Community law is perceived as something 'alien and distant', and the community budget is regarded as less worthy of protection than national financial interests," she added.

Since the Lisbon treaty, member states have a duty to protect the EU budget as well as their national budget.

European Commission spokesman Johannes Bahrke told EUobserver that the member states are "primarily responsible" for sound management, and that the cohesion policy programmes have strict safeguards.

"As far as the commission is concerned: we have zero tolerance regarding fraud with EU funds and therefore insist on a clear commitment from all member states to prevent fraud," said Bahrke.

"The commission closely follows up on that commitment and takes immediate actions, including by clawing back expenditure if the fraud is confirmed," he added.

'TOO MUCH MONEY'

But there is another problem: "There is too much money," according to researcher Fazekas.

He noted that if authorities in a country are unable to fund sufficient sensible projects, controls will become more lax.
Like many non-governmental organisations, no one wants to lose part of their funding because of the appearance that they can do with less.
Fazekas has also seen a lot of EU-funded projects being overpriced, but this is never a reason for withdrawing funds. "There are a lot of process controls, but outcome controls? Zero," he said.

A final problem is the most sensitive one.

"EU funds go to the least developed regions. By and large most least developed regions are the most corrupt regions in Europe," said Fazekas.
Administrative cultures vary greatly between member states. "Wales receiving structural funds is very different from southern or eastern

Romania receiving structural funds," he said.

"A major error of the EU enlargement was thinking that eastern European countries can be treated like poor regions in western European countries," Fazekas noted.

At the same time, he added that there was no other way to treat the new member states added in 2004, 2007, and 2013. "It was politically impossible to say: you eastern Europeans have weaker institutions, so we have a different set of rules than for the poor regions in northern Sweden," he said.

But Fazekas pointed out that methodologies exist for establishing whether a government can be trusted with managing funds – not only the World Bank has them, but so does the European Bank for Reconstruction and Development.

"It's not hard to come up with a methodology which classifies countries in, say, three categories: you can be trusted, you are in-between or you are absolutely not trustworthy. I can guarantee you Hungary would not pass".

But such a ranking of EU member states is completely against the equal treatment member states seek – and a political no-go zone.

How much money is being lost to fraud is difficult to know

Photo: European Parliament

Making the most of Europe's Zoos and Aquariums

The European Commission is due to release the results of its Regulatory Fitness and Performance (REFIT) review of the Zoos Directive, the main legislation governing the operation of zoological gardens and aquariums this quarter. The European Association of Zoos and Aquaria (EAZA), which represents 300 of the most progressive zoos and aquariums in the EU and beyond, is of the opinion that the Directive is fit for purpose, but that more needs to be done to ensure good implementation across the EU. EAZA is Europe's key centre of excellence for scientific knowledge about wild animal welfare and management, and proposes to work closely with stakeholders to help zoological institutions meet and exceed the standards laid down in the Directive and its accompanying Good Practices Document.

National governments across the Union rely on zoos and aquariums to help them meet their obligations to the Convention on Biological Diversity (CDB)'s Aichi Targets. These targets commit signatories (and every EU Member State is a signatory) to the education of the public about biodiversity and its loss, and to work to conserve species threatened with extinction. EAZA Members take this duty seriously, and our inspection and accreditation regime goes above and beyond the requirements of the Zoos Directive. This places us in a unique position to be able to assist the European Union and its Member States to implement the Directive, and ensure that all zoos in each country are doing their share to educate the public correctly, carry out meaningful scientific research, protect animals via ex situ conservation and support for field conservation, and to provide the highest standard of care to the animals that live there.

Making sure that zoos and aquariums live up to the ideal of the Zoos Directive is not a simple task for Member States. Zoo and aquarium operations are complex, and only good zoos and aquariums understand the full range of criteria that should be applied; this does however, raise a question of the objectivity of any zoo inspectorate that has the ability to judge standards accurately. On the other hand, it is in the long-term interest not only of EAZA and its Members, but also national governments to ensure that zoos and aquariums meet the highest possible standards. Without such scrutiny, public support for zoos and aquariums will surely be lost, and with it, the ability of our institutions to work to reduce biodiversity loss through conservation, education and research.

EAZA therefore proposes to be a strong and vocal partner of the European Union as it reviews the best options for implementing the Zoos Directive. Our professional development network, the EAZA Academy, stands ready to provide training or guidance to trainers and inspectors. Our Members also stand ready to show inspectors and ministries the standards we expect as a benchmark for accreditation; and while we realise that not every zoo can be an EAZA zoo, we also believe strongly that every zoo should aspire to our standard. EAZA calls on the European Commission and Member States to review carefully the REFIT findings, and to use our expertise and passion to ensure that zoos are fit for purpose both now and into the future.

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Or visit our website www.eaza.net

Tug of war between 'top -down' and 'bottom-up' cohesion money

The European Commission has promised greater flexibility for local authorities when it comes to delivering on-the-ground results - but it has also tied cohesion policy to the European Semester, a tool used to coordinate macroeconomic policies.

By Nikolaj Nielsen

Carola Gunnarsson is the mayor of Sala, a town north of the Swedish capital, Stockholm.

Like many of her counterparts throughout other member states, Gunnarsson wants much greater say, input and flexibility into how EU funds are divided up and spent on the ground.

"Sometimes I think that we can't do exactly what we need, and we can't use the money in the best way...in the proper way," she told EUobserver in an interview.

Gunnarsson's frustration is a reflection of a complex administrative machine that divides out EU cohesion policy funding, often with a top-down approach.

Getting the money to the right projects at the local level, she said, also makes the European Union more 'tangible' for the majority of people.

"I think some of the funds are the only way to show the citizens that we are a part of the European Union," Gunnarsson believes.

Stockholm's Metro. Some 70 percent of people in Europe now live in urban areas

Photo: Arild

'The European Semester is not attentive to the living conditions of people on the ground, it is designed to deliver stability', conceded one EU official.

Photo: European Commission

Because of that, she wants the local level more involved in the decision-making and regional programming of EU funds.

And the European Parliament agrees, noting that more than 70 percent of Europeans live in urban areas.

In a non-binding resolution passed in early July, MEPs backed the idea of creating a legal basis to allow cities to get more formally involved in EU decision-making.

One of the concepts coming out of the resolution would also require a European commissioner to take political charge of setting up a 'one-stop shop' for urban areas to obtain easier access to EU funds.

Stefano Bonaccini, who presides over the Council of European Municipalities and Regions, described the MEP's position as a major victory.
"By their very nature, mayors and local councillors are in a unique position to understand citizens' needs and make EU legislation rooted in reality," he said in a press statement.

Yet that idea has been around since 2001.

Fifteen years later, the EU put together an EU Urban Agenda that created a governance model allowing member states, the European Commission, the European Parliament, and local governments to review existing legislation.

POLAND

But those battles have yet to produce some of the desired victories sought after at ground level. Take Poland, for example.

"More than once before, the Polish government has talked about 'decentralisation' while carrying out 'centralisation'," Olgierd Geblewicz, the marshal for the West Pomerania region of Poland, told EUobserver, in an emailed statement.

Geblewicz said recent federal ministerial assurances to the contrary need to be set out in a formal decision, and that discussions on post-2020 EU funds have only just started.

"We see a great deal of risks and threats going forward, not only in terms of the future financial framework, which will weaken cohesion policy, but also in terms of how funds are spent," he said.

Poland currently has 16 regional operation programmes - yet 15 member states have no regional programmes at all.

Regions still manage a large part of the EU money that is poured into some 540 programmes. This accounts for one third of the total allocation.

Of that, more than two-thirds of regional programmes are concentrated in Germany, Spain, France and Italy. These four EU states alone represent some 56 percent of the total population of the EU-27.

The European commission wants to set aside some €373bn for its cohesion policy post-2020. Its broad aim is to reduce the gap in low-income and low-growth regions.

The commission says the policy is designed for all regions, and has a more 'tailored' approach (with money geared towards less-developed regions, transition regions, and more-developed regions.)

The less developed the region, the greater flexibility in terms of spending, whereas more developed regions will need to focus on areas like innovation and climate change.

The commission has also promised to cut red tape and make life easier by creating a single rulebook for the various EU funds.

While such moves appear welcomed, there are some concerns among regional authorities that the big political compass remains centralised.

THE 'EUROPEAN SEMESTER'

Among them is the European Semester, a roadmap that guides EU-level economic and fiscal policy objectives in six-month cycles.

The commission wants to use country-specific recommendations drawn up under the European Semester to serve as a guide when it comes to programming the funds and the design of cohesion policy programmes.

It means the European Semester would be used as a tool to coordinate macroeconomic policies, in what some critics say is divorced from the everyday realities of people at the local level.

Woman riding her bike in Stockholm. Swedish mayor Carola Gunnarsson wants greater say into how EU funds are divided up and spent.

Photo: European Parliament

"The European Semester is not attentive to the living conditions of people on the ground, it is designed to deliver stability," conceded one EU official.

It also means that if an EU state fails to control its national budget deficit, then the European Commission can request the funds be suspended.

To help guide EU states, the EU commission in its proposal then shuffled money away from Cohesion Policy to create a new 'Reform Support Programme' worth some €25bn.

The programme rewards EU states that carry out country-specific recommendations made at the EU level, as an incentive not to risk funding cuts that affect people on the ground.

Differing opinions on how to measure economic results of 'cohesion'

From a purely economic point of view, it can be difficult to measure the effectiveness of cohesion policy. But - politically - it underpins a deal made during the 2004 accession of eastern member states.

By Eszter Zalan

Cohesion policy is one of the biggest chunks of the EU budget – and the subject of the fiercest haggling every seven years among EU leaders when they meet to agree on the numbers of the next budget.

Funding between 2014-20 amounted to €351.8bn (almost a third of the entire EU budget), and a budget of €373bn is planned for 2021-2027, according to the EU commission's proposed new long-term budget.

One reason it is one of the most contested EU policies is that net payers can see it as a burdensome tradition, rather than an investment in the future - while recipients argue it is a due compensation for opening their markets.
The policy is laid out in the treaty, in which

Cohesion policy projects in Romania
Photo: European Parliament

Scotland's remote regions, like in the Highlands, have also profited from EU subsidies. But what is the long-lasting effect on the economy?

Photo: Peter Teffer

member states pledge to work on "reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions or islands, including rural areas."

"A heterogeneous, but integrated, market system requires tools to contain imbalances and prevent divergence," Laszlo Andor, a former EU commissioner for social affairs, told EUobserver.

"Through cohesion policy, the community contributes to investment everywhere - but especially in countries and regions where incomes are lower and resources are thinner, and the vicious circle of underdevelopment is a real risk. Needless to say, to tackle such risks is in the interest of the whole EU," Andor argued.

Andor said cohesion policy is working – but admitted it could function better.

The ex-commissioner said lower-income EU countries have very little public investment in which EU funds don't play a part, and that it is also "crucial" in some regions of higher-income countries.

However, the cohesion policy's effectiveness is regularly called into question, and net contributors often point to mismanagement or even corruption. One of the problems is that measuring cohesion policy only through economic growth can be very narrow.

Nevertheless, some of the central and eastern European countries which have received billions of euros in the past 14 years have seen hefty economic growth.

The commission said in its forecast last spring that Poland's economy is expected to grow by 4.3 percent this year and 3.7 percent next year. Hungary's economy is set to grow by 4 percent and 3.2 percent next year.

Andor said Poland and Hungary would have been much less prosperous over the past

Former commissioner Laszlo Andor said that Poland and Hungary would have been much less prosperous over the last 15 years without EU funds

Photo: European Commission

15 years without EU funds, even though some development would have taken place by receiving foreign direct investment.

WHAT IS THE EFFECT?

The effectiveness is difficult to measure even according to the EU commission, which steers the program, as there are 270 regions with different needs and objectives.

According to the EU executive, under the regional and cohesion funds (two of the biggest amounts of money under the policy), 1.3 million jobs were created in the EU during 2007-2013, and over 356,000 small-and-medium enterprises (SMEs) and 141,000 start-ups were supported.

During this financing period, some 7,541km of railway was renovated, 475km was newly-built, while 41,189km of road was repaired and 6,667km of new roads built.

Some experts, however, argue that while the cohesion funds create a short-term capital infusion, they have no long-term effect on economic growth.

A Budapest-based research institute, Hetfa, said in a report that, due to EU funds, in Hungary GDP was higher by 4.9 percent in 2015 than it would have been without the subsidies. Employment increased by 2.8 percent.

Subtracting the short stimulus rush on demand caused by the EU funds still leaves Hungary with a 2.1 percent higher GDP than without the EU funds, and employment increased by 0.8 percent compared without subsidies.

Zsolt Darvas, an analyst with the Brussels-based Bruegel think tank, agreed that the policy's effectiveness raises questions.

Money dispersed by three different funds under 'cohesion' has a short-term effect that has contributed to Hungary's GDP growth. But this is generally used for imports and boosting demand.

"The long-term effect remains moderate as the short-term effect of spending money wanes," Darvas told EUobserver.

One of the aims of cohesion was to inject capital into post-communist countries. But the funds have - to some extent - been taken advantage of by companies that use the additional financing for investments they would have made anyway.

Some experts are also concerned that the funds were used for the daily operation of existing institutions, like university departments, via projects intended for deeper academic research.

"The cohesion policy effectively has not contributed to growth," said Balazs Szepesi, an analyst with the Budapest-based Hetfa Research Institute, who has been following the issue closely for decades.

According to an analysis by Hetfa, Hungary's annual GDP growth was only 0.1-2.0 percent higher because of EU funds in the 2007-13 financing period. Sustainable growth they found was 1.0 percent in the period 2007-13.

Hetfa's report also concluded that only 81,000 jobs (in a labour market of 4.2 million) were created, most of them for the duration of the projects. Over the long-term, approximately 20,000 people found jobs thanks to the cohesion programs.

Cohesion policy projects in Romania
Photo: European Parliament

TOO TIGHT, TOO LOOSE?

Szepesi said the key reason for this is that cohesion policy – in the past 14 years since central European member states joined the bloc in 2004 – has become more bureaucratic and rigid.

The EU sets goals and member states and regions can choose from those.

"The countries' and regions' hands are tied. They spend the money on what they can, not on what they need to," Szepesi told EUobserver.

Szepesi argued that the EU has sacrificed some of the effectiveness, for the sake of being able to measure the impact of cohesion policy.

He added that the pressure to fulfil indicators to prove that a fund has been used dissuades stakeholders from taking risks – and that hinders more tangible results.

The success of an education project, for instance, might score higher if funds are made available for already relatively well-functioning schools: thus money is channeled to them, rather than schools in more difficult situations where progress is more difficult to achieve.

Szepesi added that cohesion funds contributed to the 'economic miracle' seen in previous decades in Spain and Ireland – but that the rules of the programs became stricter once Europe's eastern flank joined.

The commission-led administration, Szepesi argued, wants to limit how much of a say politics has in the distribution of the funds, which leads to avoiding setting clear targets and negates taking responsibility for the spending of the funds, and blaming "Brussels".
This also makes political accountability more difficult, Szepesi pointed out. He argued that, instead, politics should have a wide room for manoeuvre when designing programs and deciding on funds.

Darvas argued the opposite – that efficiency could be improved if, instead of member states, it was the commission directly in charge of managing cohesion money.

Darvas said there is a need for increasing the amount of aid that needs to be refunded, thus making stakeholders more interested in what they invest in, if the money needs to be paid back.

Darvas added that some of the proposals in the new long-term EU budget plan put forward by the commission in May might help efficiency: such as the rule of law mechanism, or channeling more money through the cohesion policy's regional fund, thus targeting regions directly.

POLITICAL DEAL

Perhaps the cohesion policy's effectiveness cannot always be expressed in mere numbers.

"Another reason [behind cohesion] was compensation for economic integration to the EU," Szepesi added, highlighting the political deal underpinning the policy - which makes it again more difficult to measure its effectiveness.

As 'core Europe', western member states accumulate capital and a labour force, the economic difference with the periphery is bound to grow, hence the need to rebalance that.

Central and eastern member states opened their markets, and shut down industries, because of EU integration, resulting in job losses, while the growing imports stimulated the economies of the West.

Darvas of the Bruegel think-tank describes this as a comprehensive political bargain, made at the time most central and eastern European joined the EU in 2004: open markets in return for compensation.

Recipient countries use the argument in budget talks today to argue that net payers benefit hugely from cohesion funds through procurement contracts and the opening of new markets. Cohesion euros trickle back to where they came from.

The complex system of cohesion of funding, and its political image as an EU "sacred cow" might make it unpopular among policy-makers, but it is a symbol of the EU solidarity that is in scarce supply on the political market of today's Europe.

'Integration' –the missing factor in new EU migration fund

An estimated 80 percent of Syrian refugees in the EU are unemployed - despite this, the integration of asylum seekers and migration remains outside the European Commission's policy objectives in its latest budget proposals for regional development and cohesion policy.

By Nikolaj Nielsen

Earlier this year, Athens' mayor Georgios Kaminis was in Brussels to plead his case on how to best integrate migrants, refugees, and asylum seekers.

"We have the responsibility, we have the burden, so I think we deserve to have the right to direct access of European funds," he told EUobserver, following the public hearing at the European Parliament in mid-May.

With an estimated 80 percent of Syrian refugees in the EU unemployed, the integration of migrants and refugees remains a big issue for cities and regions.

Because of it, Kaminis says EU funding needs to be organised in such a way that local authorities are entitled to distribute it.

"It would lead to more efficient cooperation between governments and regional and local authorities," he said.

The Greek mayor's comments came a few weeks before the commission announced the new EU 'multi-annual financial framework' budget for the next seven years, that will include migration as a new criteria when assessing how much will be allocated from the cohesion fund.

SHOW ME THE MONEY

None of the objectives under the new cohesion funds proposal highlight integration as a policy goal, but instead focus on things like innovation and clean energy.

The European commission in its new budget proposal for regional development and cohesion policy has promised local authorities greater involvement and ownership of EU funded projects - but as yet no direct access.

It also says local and regional levels of government, including civil society, should receive as much support as possible when it comes to integration.
The commission is instead proposing a new

€10.4bn asylum and migration fund (AMF), to address immediate needs like reception and healthcare.

The AMF plan is to support long-term integration under the EU's cohesion funds, and in particular the regional development fund. Some six percent of the fund has been earmarked for urban development, which can also include integration programmes.

The commission also promised less red tape. It means, among other things, that a small percentage of the money can be shuffled around to different priorities without any paper work.

But whether such initiatives will trickle down to the people most in need remains to be seen.

Many face poverty, social exclusion, and segregation as some grapple with language and unemployment. Austria earlier this year proposed lowering monthly refugees' benefit payments if they don't speak German.

Some asylum seekers and refugees are also located to rural areas of Europe, far away from the big cities where they are more likely to find a fellow diaspora.

Meanwhile, an Eurobarometer on integration in April found that most people tend to overestimate the number of non-EU immigrants.

HOSTILE LOCALS?

It also found local populations with few immigrants are the most unlikely to think integration is a success, and that immigrants have had a positive impact.

"The more unemployment among the native-born people, the more reluctant they will be vis-a-vis migrant arrivals," said Claire Charbit, who oversees regional development policy at the OECD, at a June conference organised by the Council of European Municipalities and Regions.

A survey of migrant-integration policies across 10 European cities, conducted by the OECD, found more than two-thirds of foreign-born people live in metropolitan areas, while asylum seekers are more dispersed.

Charbit, who conducted the research, said the biggest problem facing local authorities when it comes to integration is a lack of information sharing among different levels of government.
"There will be no integration if you do not take into

Refugee and asylum centre in the Belgium city Liege.
Photo: European Parliament

Athens' mayor Georgios Kaminis: 'We have the responsibility, we have the burden, so I think we deserve to have the right to direct access of European funds.'

Photo: European Commission

The second biggest headache is making sure integration policies and work programmes are widespread, she said, noting "you cannot just offer them [migrants] a house and nothing else."
Such a long-term and local approach requires dedicated policy and political commitment. Some efforts are under way.

Last December, the commission had signed a 'European Partnership for Integration' with the European Trade Union Confederation and BusinessEurope, among others to help refugees find jobs more quickly.

"All actors – public and private - need to do their part to successfully integrate refugees and this is why we want to join forces," said EU migration commissioner Dimitris Avramopoulos at the time.

The pact is part of the Urban Agenda for the EU, launched in May 2016, to better coordinate cooperation between the different levels of government.

account the differences among places. The issues are not the same, the questions and the realities are not the same, so you need to adopt a placed-based approach," she said.

An abandoned hotel in Athens turned into a refuge.

Photo: Nikolaj Nielsen