

## **HOW WILL BE THE FUTURE OF REGIONAL POLICY IN EUROPEAN UNION?**

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### **Abstract.**

*For recent period, cohesion and regional policy pursue to promote equilibrate territorial development, full employment of labour force undeveloped regions, to strengthen regional competitiveness and territorial cooperation. Some of the established objectives have not been achieved fully during the current programming period; therefore, in the future they shall be further taken over and supported.*

*Currently, the public consultation process regarding regional policy and the Europe 2020 Strategy is almost finalised, the contributions and opinions of the Member States, regions and towns being included into the working paper of the European Commission.*

*This article aim to identifying the main characteristic of the future regional development policy in EU-27 and how will affect Romanian territorial perspectives.*

**Keywords:** *regional policy, cohesion, Europe 2020*

**JEL classification:** *R11, R12*

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### **1. Introduction**

Currently, economic realities are moving faster than political ones and it need to accept that the economic interdependence demands also a more expressed and coherent reaction at the regional level.

The recent economic crisis has no precedent and the economic convergence witnessed over the last programming periods have been wiped out (GDP fell by 4% in 2009, industrial production dropped back to the levels of the 1990s and 10% of active population are unemployed).

The crisis has been a huge shock for regions (in specially, poor regions) and states and it has exposed the sensitive situation of financial and

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economic system. Europe is facing one with clear challenging choices: immediate challenge of the recovery (competitiveness difficulties, slow-down productivity, and unemployment) and the long-term challenges (globalisation, pressure on resources, ageing). At the regional level, all these difficulties are more visible and pronounced. These aspects should be taken into account in future EU regional policy.

The research paper attempts to provide answers to the following question: which are the perspectives of regional development from European Union taking into account the present vision of the Strategy Europe 2020.

## **2. Actual context**

Regional policy has an important communitarian role to play in mobilising local assets and focusing on the development of endogenous potential. Thus, Article 174 of the Treaty calls for action by the European Union to strengthen its economic, social and territorial cohesion and promote overall harmonious development by reducing disparities between the levels of development of regions and promoting development in least favoured regions.

In actual programming period, economic and social disparities in Europe are substantial and they have significantly deepened with new and old member state, especially after 2009. At the regional level, the difference is even bigger: the richest region is Inner London with 290% of EU-27's average GDP per capita, while the poorest region is Severozapaden in Bulgaria with 21% of the EU average<sup>1</sup>.

EU regional policy follows the solidarity between the 271 regions and 503 million peoples of Europe, while strengthening the competitiveness of the EU economy as a whole. The fundamental objectives of regional policy are achieving economic and social cohesion by reducing disparities between regions and by spreading the advantages of the common market across the EU territory.

The most part of actual EU budget (one-third) is allocated to the financial instruments of EU cohesion policy: the European Regional Development Fund, the Cohesion Fund and the European Social Fund. These instruments amount to a total of €347.4 billion, with about 82% to be invested in the EU's poorest regions. The added value regional policy should be considerable: investment in infrastructure, human resources and the modernisation and regional economic diversification, and created more growth and jobs in the

poorer Member States and regions. Approximately 82% of total funds focus on:

1. 'Convergence' regions – home (35% of the Union's population) – (282,8 billion euro);
2. Regional Competitiveness and Employment objective (55 billion euro);
3. Cross-border, transnational and interregional cooperation (8.7 billion euro).

The objectives, eligible regions and allocations are as follows<sup>2</sup> :

Convergence Objective: concerns 84 regions in 17 Member States (154 million inhabitants), whose per capita GDP is less than 75% of the Community average. In addition there are – on a phasing-out basis – another 16 regions with 16.4 million inhabitants and a GDP only slightly above the threshold due to the statistical effect of EU enlargement. The amount available under the 'Convergence' objective is €282.8 billion (81.5% of the total) and it is split between allocations for the 'Convergence' regions worth €199.3 billion, while €13.9 billion are reserved for the phasing-out regions and €69.6 billion for the Cohesion Fund, the latter applying to 15 Member States.

Regional competitiveness and employment Objectives: concerns 168 regions in 19 Member States are eligible, representing 314 million inhabitants. Within these, 13 regions (19<sup>2</sup> million inhabitants) represent so-called phasing-in areas and are subject to special financial allocations due to their former status as Objective 1 regions. The amount of €54.9 billion of which €11.4 billion are for the phasing-in regions represents just below 16% of the total allocation.

European Territorial Cooperation: the population living in cross-border areas is 181.7 million (37.5% of the total EU population), while all EU regions and citizens are covered by at least one of the existing 13 transnational cooperation areas. The €8.7 billion (2.5% of the total) available for this

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<sup>2</sup> The calculation method of allocations is laid down in EU regulations governing cohesion policy instruments. It distinguishes between the three objectives and final shares depend mainly on relative regional and national prosperity, population figures and unemployment rates. Funding does not exceed 4% or so of the gross domestic product of an individual Member State.

objective are split as follows: €6.44 billion for crossborder, €1.83 billion for transnational, and €445 million for interregional cooperation and networks.

### **3. Evaluation of actual EU-27 regional policy – synthetic approach**

Within the European Union, the impact of structural funds is evaluated periodically with the purpose of identifying the attainment degree of the convergence objectives and the efficiency in implementing the cohesion and regional development policy. The regional policy, assimilated in general to a public intervention at territorial level is evaluated in certain stages of implementation for learning about the whole change obtained as result of the actions and measures realised with the purpose of attaining the established objectives (for instance, diminishing inter- and intraregional disparities, balanced economic and social development, employment, output and consumption growth, improving social, transport, environmental, tourism and education infrastructure, etc.).

The conclusions of the recent evaluation report on the progress of regional and cohesion policy 2007-2013<sup>3</sup> :

- The financial absorption in 2007-2013 in terms of payments (2007-2010), EUR 152 billion were transferred (until 3 January 2011) from the EU-27 to Member States for advance payments and reimbursement for Cohesion Policy projects. During this timeframe, 50% of the Commission payments (EUR 75.5 billion) were related to the 2000-2006 period.
- The total amount of advance payments and interim payments for the 2007-2013 period is only slightly higher (EUR 76 billion). The data show that the pace of 2007-2013 payments under the 2010 financial framework accelerated in comparison to previous years.
- In the fourth year of the 2007-2013 period (2010) is characterized by a process of catching-up for both the yearly a<sup>3</sup>nd aggregate expenditure. This gap can be explained by the different regulatory framework of 2007-2013 which limits somewhat data comparability. Moreover, in the first years of 2007-2013 implementations, Member States gave priority to closing the period 2000-2006, thus creating pressure on administrative capacities.

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<sup>3</sup>[http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/eval2007/expert\\_innovation/2012\\_evalnet\\_fei\\_synthesis\\_final.pdf](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/expert_innovation/2012_evalnet_fei_synthesis_final.pdf)

<sup>3</sup> The financial execution of Structural Funds, [http://ec.europa.eu/regional\\_policy/sources/docgener/focus/2011\\_03\\_financial.pdf](http://ec.europa.eu/regional_policy/sources/docgener/focus/2011_03_financial.pdf)

- The absorption rate was 20,5% (at the end of 2010, higher than the absorption in 2000-2006 after four years of implementation (17.8%)<sup>4</sup>
- The main findings of this Report is that a low level of financial execution is often associated with administrative problems, an insufficient strategic approach or implementation obstacles on the ground. The low absorption rates can present delays, institutional inefficiency, weakness in relation between a financial execution and institutional problems. Also, a full picture of the success or failure of regional policy should not be based only financial data, ignoring the effectiveness of measures implemented and their effects on territorial development.

#### **4. Regional policy in context of Europe Strategy 2020**

The current regional policy pursues to promote growth and full employment of labour force in the less developed regions, to strengthen regional competitiveness and territorial cooperation. Some of the established objectives have not been achieved fully during the current programming period; therefore, in the future they shall be further taken over and supported.

The perspectives regarding the future regional policy 2014-2020 take into account the actual context of its implementation<sup>4</sup>, but it should provision correctly the effects of the economic and social crisis on medium- and long-term. The economic and financial crisis that affected all Member States to various shares can be combated also by actions of the regional policy considered as true “salvation” solutions.

The Europe 2020 Strategy for smart, sustainable and inclusive growth has as basis three interrelated priorities:

- smart growth - by strengthening knowledge and innovation;
- sustainable growth - assumes the realisation of the economy based on efficient, sustainable and competitive use of existing resources;
- growth based on sustaining social inclusion –implies the development of inhabitants’ knowledge, full employment of labour force, competences development, poverty alleviation, etc.

The key-indicators proposed for achievement by the Europe 2020 Strategy fulfil the SMART criteria being directly linked to the trends registered on the labour market, by the sustainable and social development:

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<sup>4</sup> [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/study\\_en.htm](http://ec.europa.eu/regional_policy/sources/docgener/studies/study_en.htm).

1. increase of population's employment rate (20 – 64 years) from the current level of 69% to at least 75%;
2. investments in research-development should reach 3% of the EU GDP;
3. fulfilment of the 20/20/20 objective (or 30/20/20, in case of complying with certain conditions) regarding climatic changes and energy;
4. early school-leaving rate under 10%, the weight of young population to graduate tertiary education of at least 40%;
5. diminishing the number of persons at risk of poverty by about 20 million.

The interdependent key-targets established by the Strategy must be transposed by the Member States and Romania in specific national targets and in action guidelines by considering the own economic situation of each state. Putting into practice the actions determined by the European policy depends, to a large extent, on the existence of firm political commitment, and on an efficient implementation mechanism both at EU and Member States' level. Furthermore, for attaining the strategic objectives a set of seven flagship initiatives were proposed which aim at: innovation, education, digital society, climatic changes and energy, competitiveness, labour force employment and competences training, poverty alleviation. These initiatives are accompanied by a series of legal acts, key-instruments (internal market, industrial policy, EU's economic foreign agenda) and financial instruments that have as purpose to increase the focus on implementing the objectives of the Europe 2020 Strategy.

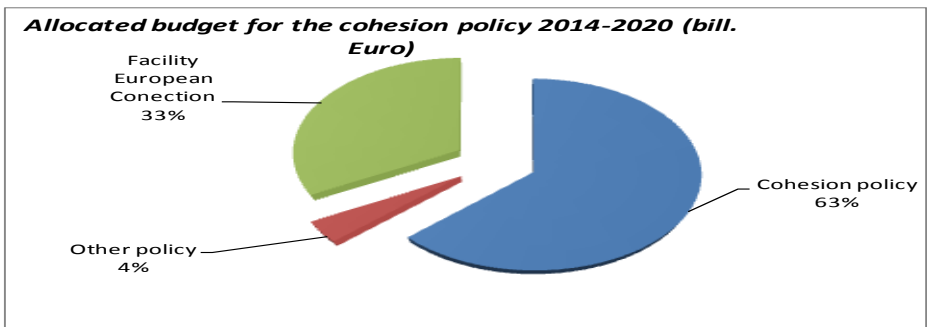
The development of the Strategy took into account possible implications on medium- and long-term of the financial and economic crisis, of the way in which budgetary and monetary policies shall be able to manage this phenomenon, and the direct support granted to the economic sector, etc.

Regarding the governing framework, the Europe 2020 Strategy presupposes clearly defined and measurable objectives that would evaluate correctly progresses being organised on a thematic approach and on more exact country monitoring. In order to obtain these effects, evaluations and reporting shall be developed simultaneously on the Europe 2020 Strategy (the structural reforms component) and on the Growth and Stability Pact (the macros-stability and public finances component).

The general guidelines of the Europe 2020 Strategy were adopted at the beginning of the year 2010, as they are going to be put into practice immediately on the termination of the current programming period.

The EU regional policy is implemented with the help of Structural Funds that are constituted by public funds allocated from the Community budget. For the period 2014-2020 the total value of the European Union financial support by Structural and Cohesion Funds shall be of 376 billion (from which 40 billion for “connecting Europe” in the field of transportation, energy and ITC), representing about 33% from the European Union budget (figure 1).

Figure 1: Allocated budget for the cohesion policy 2014-2020 (bill. Euro)



Source:

[http://ec.europa.eu/regional\\_policy/what/future/proposals\\_2014\\_2020\\_en.cfm](http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm).

From the total of 336 billion Euro, the cohesion fund shall obtain an allocation of about 8.7 billion Euro (value diminished by approximately 0.9 billion Euro as compared with the current period), the difference going to regional and social development, that shall distribute the resources depending on the development level of the respective area, as follows:

1. For less developed regions - 162,6 billion Euros;
2. For developed regions - 53,1 billion Euros;
3. For transition regions - 39 billion Euros;
4. For territorial cooperation - 11,7 billion Euros;
5. Additional allocation for ultra-periphery and Northern regions - 0,9 billion Euros.

The main instrument for implementing the future regional policy within the EU is represented by the European Regional Development Fund (ERDF) that has as strategic objective to strengthen economic, social and territorial cohesion in the EU by correcting existing imbalances between its regions. ERDF supports both regional development and the local one contributing to reaching all thematic objectives, by establishing the following priorities:

- research, development and innovation;
- improving access to information and their quality, as well as access to communications' technology;
- climatic changes and shifting to a low-carbon emissions economy;
- commercial support granted to SMEs;
- services of general economic interest;
- telecommunications', energy, and transport infrastructures;
- strengthening the institutional capacity and efficient public administration;
- health, education and social infrastructures;
- sustainable urban development.

The changes occurred for the next programming period is determined by the Community interest to diminish losses or inefficient allocations from public funds (national or Structural Funds). To this end, the future regional policy shall take into account:

1. Strengthening thematic focus –therefore, minimum allocations shall be established for a number of priority areas. The less developed regions shall focus on a wider range of investment priorities that would reflect their higher development needs. Also, at least 50% of the ERDF funds shall be allocated



for energetic efficiency and renewable energies, innovation and support for SMEs.

2. Strengthening territorial cohesion –the future regional policy shall focus even more on sustainable urban development, that will benefit of about 5% from the ERDF resources. Urban development platforms will be promoted for consolidating capacities and experience exchange. Therefore, a list of towns shall be adopted in which integrated actions will be applied for sustainable urban development. A special attention shall be granted to areas with natural or demographic particular earmarks, as well as an additional allocation for the ultra-periphery and poorly populated regions.

## **5. Conclusion**

The actual regional policy promotes the equilibrate development at European level and pursues to diminish disparities between and within regions. Also, it sustain the growth model establish by the Europe 2020 Strategy, including the necessity of meeting the societal challenges, and those related to labour force employment in the Member-States and in the regions.

From the perspective of the Europe 2020 Strategy, the regions can continue in obtaining differentiated support depending on their economic development level (GDP/per capita), a clear distinction being made between “less developed” and the “more developed” regions.

With respect to the regions with a similar level of economic development, the possibility shall be given to implement support gradually, by a simplified system that will include a new intermediary category of regions. This category would contain eligible regions currently under the convergence objective, but for which the GDP/per capita is higher than 75% from the European Union average.

Another aspect worth signalling is the way in which the European Social Fund (ESF) is oriented on fulfilling the objectives of the Strategy and to a better visibility of financings and impact. Also, the Cohesion Fund shall continue supporting the Member-States for which the GDP/per capita is placed under 90% of the Union’s average.

The regional policy shall promote other territorial dimensions of cooperation as well (trans-border, transnational and inter-regional), but shall take into account the revision and simplification of the current provisions regarding trans-border cooperation at the external borders of the EU, as well as of the

present practices regarding transnational actions financed both by ERDF and ESF.

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