Regional Policy in the European Union

By Ashley Carlisle, Diane Davis, and Heath Freeman
What is Regional Policy?

- Policy promoting solidarity
- Allocates more than 1/3 of the EU budget
- Aims to reduce gaps in development among the regions
- Works to improve disparities among the well-being of citizens
What is Regional Policy?

- Helps lagging regions to...
  - catch up
  - restructure declining industrial regions
  - diversify the economies of rural areas with declining agriculture
  - revitalize declining neighborhoods in the cities.
What is Regional Policy?

- Seeks primarily to generate new resources by investment
- Decentralized policy based on partnerships
- Knowledge, technology and ‘good practices’ are exchanged
- Cooperative networks are developed
What is Regional Policy?

- It sets job creation as its primary concern.
- Seeks to strengthen the economic, social and territorial ‘cohesion’ of the Union.
- Policy co-financed by the European funds, Structural Funds and Cohesion Fund, which embody Community solidarity.
Regional Policy is **Not**…

- Archaic or outdated
- A charity policy
- Just a financial program
- Policy consisting solely of redistributing resources
Regional Policy in Real Life

- Helps people to find work and live better in their country, region, neighbourhood or village.
- It makes it possible for highways, high-speed trains and airports to bring regions on the periphery closer to the great centers of economic development.
Regional Policy in Real Life

- Small and medium-sized enterprises are created in backward regions.
- The environment in old industrial wastelands is improved.
- Information society takes root in rural areas.
- Education and recreational services become established in the suburbs.
Some Key Dates

- **1957 Treaty of Rome**, preamble refers to the need ‘to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing among the various regions and the backwardness of the less-favored regions.’
Some Key Dates

- **1958** European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF) are established.
- **1975** Creation of the European Regional Development Fund (ERDF)
- **1986** The Single European Act lays the basis for a genuine cohesion policy designed to offset the burden of the single market for the southern countries and other less-favoured regions.
Some Key Dates

- 1989–93 The European Council in Brussels in February 1988 overhauls the operation of the Solidarity Funds (now referred to as the Structural Funds) and allocates ECU 68 billion to them (at 1997 prices).
Some Key Dates

- **1992** The Treaty of the European Union, which came into force in 1993, designates **cohesion** as one of the main objectives of the Union, alongside economic and monetary union and the single market. It also establishes the creation of the **Cohesion Fund** to support projects in the fields of the environment and transport in the least prosperous Member States.
Some Key Dates

1994–99

- The Edinburgh European Council (December 1993) allocates almost 200 billion ECU (at 1997 prices), one third of the Community budget, to cohesion policy.
- Alongside the Structural Funds, a new Financial Instrument for Fisheries Guidance (FIFG) is created.
Some Key Dates

- **1999** The Berlin European Council reforms the Structural Funds and adjusts the operation of the Cohesion Fund. These funds will receive over **EUR 30 billion per year between 2000 and 2006**, i.e. EUR 213 billion over seven years.
Some Key Dates

- **1999** The Instrument for Structural Policies for Pre-accession (ISPA) and the Special Accession Programme for Agriculture and Rural Development (Sapard) complements the Phare programme that has been in existence for seven years to promote economic and social development and environmental protection in the applicant countries in central and eastern Europe.
Some Key Dates

Regional Policy and Accession

- Accession of 10 new Member States is historic opportunity and large challenge
- Economic and social disparities among Member States and among its regions weaken EU’s dynamism overall
- These disparities are twice as great in EU-25, with its 254 regions, than in EU-15
- With accession, Regional Policy is necessary now more than ever
Regional Policy and Accession

- New Member States and almost 98% of their population, of whom two thirds live in regions with a GDP per head of less than half the average GDP EU-25.
Regional Policy and Accession

GDP per head, 2002

Index EU-25 = 100

Average EU-25

Source: Eurostat, national accounts.
Regional Policy and Accession

- EU-25 compared to EU-15: **20% increase in population**, with only **5% increase in GDP**
- Unemployment rates (2002 data) vary greatly within the EU-25: from 2% in Tyrol (Austria) and 3.3% in Cyprus to 29% on Réunion Island (France) and 26.3% in the Lubuskie region (Poland).
- Outside the most disadvantaged regions, many regions and cities find themselves in an intermediate situation with areas in which serious economic and social difficulties accumulate.
The Structural Funds
The Four Structural Funds

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- European Agricultural Guidance and Guarantee Fund (EAGGF - Guidance Section)
- Financial Instrument for Fisheries Guidance (FIFG)
The European Regional Development Fund (ERDF):

- Promotes economic and social cohesion within the EU
- Finances investment leading to the creation of new jobs, infrastructure improvements, local development initiatives and the activities of small and medium-sized businesses
The European Social Fund (ESF):

- Focuses on employment policy
- Aims to prevent unemployment
- Develop human resources
- Promotes integration of the labour market
The European Agricultural Guidance and Guarantee Fund (EAGGF - Guidance Section):

- Helps in both the development and the structural adjustment of rural areas whose development is lagging behind.
- Improves the efficiency of their structures for producing, processing and marketing agricultural and forest products.
The Financial Instrument for Fisheries Guidance (FIFG):

- Focuses on the structural reform of the fisheries industry to achieve a sustainable balance between fishery resources and their exploitation
Priority Objectives of the Structural Funds

- To improve the effectiveness of structural measures
- Regulation (EC) No. 1260/1999: reduces the number of Objectives from seven during the previous period (1994-99) down to three for 2000-06
Objective One:

- Promotes the development and structural adjustment of regions whose development is lagging behind, i.e. whose average per capita GDP is less than 75% of the European Union average.
- Covers the most remote regions (the French overseas departments, the Azores, Madeira and the Canary Islands) as well as the areas eligible under the former Objective 6 (areas with low population density) created by the Act of Accession of Austria, Finland and Sweden.
- Two thirds of Structural Fund operations concentrate on Objective 1.
- Almost 20% of the Union's total population is affected by measures taken under this Objective.
Objective Two:

- Contributes to the economic and social conversion of regions in structural difficulties other than those eligible for the new Objective 1.
- Brings together the former Objectives 2 and 5(b) and other areas facing the need for economic diversification.
- Covers areas undergoing economic change, declining rural areas, depressed areas dependent on fisheries and urban areas in difficulty.
- No more than 18% of the Union's population is covered by this Objective.
Objective Three:

- Gathers together all the measures for human resource development outside the regions eligible for Objective 1.
- Replaces the former Objectives 3 and 4.
- The reference framework for all the measures taken under the new Title on employment inserted in the EC Treaty by the Treaty of Amsterdam and under the European employment strategy.
The Community Initiatives

- The new Regulations also reduce the number of Community Initiatives from 13 during 1994-99 to four for 2000-06.

- The new Initiatives are:
  - **Interreg III**, which aims to stimulate cross-border, transnational and inter-regional cooperation;
  - **Leader+**, which promotes rural development;
  - **Equal**, which provides for the development of new ways of combating all forms of discrimination and inequality in access to the labour market;
  - **Urban II**, which encourages the economic and social regeneration of declining towns, cities and suburbs.
The Budget of the Structural Funds

- To improve the effectiveness of the appropriations committed in the regions whose development is lagging behind, the new rules provide for a significant concentration of funding on Objective 1.

- The total budget for the Structural Funds amounts to **EUR 195 billion** in 2000-06, not including the Cohesion Fund.
The Budget Breakdown

- Objective 1: 69.7%, i.e. EUR 135.9 billion
- Objective 2: 11.5%, i.e. EUR 22.5 billion
- Objective 3: 12.3%, i.e. EUR 24.05 billion
- FIFG outside Objective 1: 0.5%, i.e. EUR 1.1 billion
- Community Initiatives: 5.35%, i.e. EUR 10.43 billion
- Innovative measures and technical assistance: 0.65%, i.e. EUR 1.27 billion.
## Budget: Structural Funds

<table>
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<tr>
<th>Objective</th>
<th>Objective 1</th>
<th>Objective 2</th>
<th>Objective 3</th>
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### Budget: Structural Funds and Instruments

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(*) Including phasing out.
(**) Outside Objective 1.
# Budget: Structural Funds and Instruments

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<th>Country</th>
<th>Objective 1</th>
<th>Objective 2</th>
<th>Objective 3</th>
<th>Interreg</th>
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(*) Average.

(***) Including Fisheries Fund.

(*) Due to the different lengths of the programming periods for EU-15 and the 10 new Member States (seven years and three years), it is not useful to add the financial amounts up for these two groups of countries.
# Budget: Community Initiatives

## Community initiatives in EU-15, 2000–06

(million EUR, commitments in 2004 prices)

<table>
<thead>
<tr>
<th>Member State</th>
<th>Interreg</th>
<th>URBAN</th>
<th>EQUAL</th>
<th>Leader</th>
<th>Total</th>
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The Structural Funds Contributions

- The ERDF: finances Objectives 1 and 2, the Community Initiatives Interreg III and Urban II and relevant innovative measures.
- The ESF: finances Objectives 1, 2 and 3, the Equal Initiative and relevant innovative measures.
- The EAGGF Guidance Section: finances Objective 1 and the Leader+ initiative.
- The FIFG: finances Objective 1 and assistance in regions outside Objective 1 up to 0.5% of the total allocation of the Structural Funds, and relevant innovative measures.
Structural Funds Contribution Ceilings

- **Objective 1 Regions:**
  - No more than 75% of the total eligible cost and, as a general rule, at least 50% of eligible public expenditure.
  - Can be increased to 80% for the regions located in one of the Member States eligible for assistance from the Cohesion Fund (Greece, Spain, Ireland and Portugal).
  - Can be increased to 85% for all the most remote regions as well as the smaller islands in the Aegean Sea in Greece.

- **Objective 2 and Objective 3 Regions:**
  - No more than 75% of the eligible total cost and, as a general rule, at least 25% of eligible public expenditure.
Structural Fund Annual Reports

Before 1 November each year, the Commission must present a report on the application of the Regulations in the previous year to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions.
The Commission must also present a three-yearly report to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions detailing the progress achieved towards economic and social cohesion and the contribution that structural funding has made to that progress.
The Reports Include…

- a progress report on the socio-economic situation of the regions;
- a statement of the role of the structural instruments and other financial instruments, as well as the impact of the other national or Community policies in accomplishing the process;
- any proposals concerning the Community measures and policies that may need to be adopted to strengthen economic and social cohesion.
The Cohesion Fund

Objective:

- To establish another Fund in addition to the other Community development instruments, to provide assistance in the fields of the environment and transport infrastructure of common interest with a view to promoting economic and social cohesion and solidarity between Member States.
Eligible Activities:

- Finances projects, technically and financially independent project stages, and groups of projects in the fields of the environment and trans-European transport infrastructure networks.
- Also contributes to preliminary studies related to such projects.
Eligible Member States:

- Member States whose per capita GNP is less than 90% of the Community average
- Those which have a program designed to achieve the conditions of economic convergence set out in Article 104 of the Treaty est. EC
- Cohesion Fund for the period 2000-2006=18€ billion. Money divided between four countries as followed (see graph):

<table>
<thead>
<tr>
<th>Country</th>
<th>Allocation</th>
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</thead>
<tbody>
<tr>
<td>Spain</td>
<td>61-63.5%</td>
</tr>
<tr>
<td>Greece</td>
<td>16-18%</td>
</tr>
<tr>
<td>Portugal</td>
<td>16-18%</td>
</tr>
<tr>
<td>Ireland</td>
<td>2-6%</td>
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</tbody>
</table>

http://www.bized.ac.uk/learn/economics/international/eu/notes/eu2.htm#Heading298
Available Resources:

- 2000-2006 commitment is set at EUR 18 billion (at 1999 prices)
- Allocated according to country’s population, its per capita GNP, and socio-economic factors
- Total funds each Member State receives each year (together with the assistance they receive from the Structural Funds) may not exceed 4% of their GDP
Financing Projects:

- Member States submit their applications (very specific guidelines) for assistance for projects to the European Commission, who decides within 3 months.
- The Cohesion Fund contributes between 80% and 85% of public or equivalent expenditure on projects.
- No item of expenditure may receive assistance from both the Cohesion Fund and a Structural Fund at the same time.
- Financial control of projects is primarily the responsibility of the Member States (Commission ensures management and auditing systems functioning correctly).
Changes Recently Made to the Fund:

- The definitions of “project”, “project stages,” and “groups of projects” are to be further clarified.
- Member States must carry out a more complete study of the alternatives to, and the environmental impact of the project.
- Financial commitments are made at the start of each financial year for simplicity.
- Penalties implemented for failure to complete projects.
- All transactions are carried out in euros.
Current Activities:

- There have currently been more transport projects than environmental projects.
- Priorities: railway, supply of drinking water, treatment of solid waste and wastewater.
- One third of the funding for the Cohesion Fund is reserved for the new Member States added between 2004-06.
How Has Regional Policy Helped the EU?
Is the Policy Working?

- In Italy, the Union contributed almost EUR 20 million to a EUR 66 million Rural Development project in the Trentino province. Because of this project, water can now be collected in a man-made lake from the river and distributed throughout the village.

- In Lunen, Germany, an old coal mine was converted into a future-oriented centre of technology and innovation. The creation of LUNTEC cost a total of EUR 8.5 million with the Union contributing EUR 2.9 million. LUNTEC now rents out 70% of its space to a variety of interesting and innovative organizations.

- In the UK, individuals can now participate in the “Pathways to Integration” program where they can learn the necessary skills to enter the workforce successfully (EU contributing EUR 125 million of EUR 272 million).
In Achieving Objective One:

- Increased investment in Spain by ~3%, Greece and Portugal by 8-9%, the Italian Mezzogiorno by 7%, and the new German Lander by 4%
- Contributed to the construction or renovation of 4100 km of highways and 32.000 km of roads
- Reorganization of 3.800 ha of industrial areas
- Assistance to 214.000 firms
- Training of 8.15 million people
- Creation of some 800.000 jobs
- Improved the quality of teaching and training in Portugal
- In Spain, Portugal, and Greece, notable results have been achieved through environmental infrastructure projects
- A third or more of the economic convergence of Greece, Portugal, Spain, and Ireland would not have happened without the Structural Funds
In Achieving Objective Two:

- Average unemployment rate in the areas of Objective 2 decreased by 4% between 1995 and 2001 by comparison with a decline of 3% in the EU-15
- Reconverted 115 million sq. meters of ground to improve the environment and arrange new productive spaces
- Assisted more than 300,000 SMEs and contributed to the creation of 300,000 jobs
Other Positive Effects in Other Regions

- Encouraged growth in commercial exchanges between the cohesion countries and other parts of the Union (more than doubled in last decade)

- One quarter of the structural expenditures return to the rest of the Union in the form of increased importation of machines and equipment in particular (notably in Greece and Portugal)
Room for Improvement and Challenges Faced:

- Unemployment rate rose by 4% to 24% - the largest areas for improvement revolve around the long-term unemployed, youth unemployment, and a lack of women in the workforce.

- Still a great difference exist between Member States and regions with respect both to the access of research institutions and to the number of patents filed.

- Significant portion of population in old and new EU is at risk of falling below the poverty line, established at 60% of the average national income.
Room for Improvement and Challenges Faced (cont.):

- Still large gaps in areas of technology and research development, skills in the know-how of information technology and telecommunications, and the need for continual high-quality training.

- A single market economy also increases the competition that is present, and makes it necessary for all regions to successfully attract business (requires a high quality infrastructure with a skilled workforce).

- Important to take into account that dynamic regions logically grow at a faster pace than poorer regions; with this in mind, the Regional Policy’s effects have been significant.
The Future of Regional Policy
Meeting the Four Big Challenges
1) Increase Cohesion in an Enlarged Union

- Unprecedented challenge for competitiveness and internal cohesion
- Widening and shift (east) of the economic development gap
- Socioeconomic disparities will double and the average GDP of the Union will decrease by 12.5%
- HOWEVER, there’s a likely acceleration in economic restructuring as a result of globalization, trade opening, the technological revolution, the development of the knowledge economy and society, an aging population, and growth in immigration
2) Strengthening the Union’s Priorities

- **The Lisbon Strategy** (March 2000): sets out a new strategic goal for the Union in order to strengthen employment, economic reform, and social cohesion as part of a knowledge-based society; strategy based on three pillars: 1) economic and 2) social renewal and 3) the environmental dimension.

- **The Gothenburg Strategy** (June 2001): goal is sustainable development, which strives to meet the needs of the present without compromising the ability of future generations to meet their own needs; integrates the environmental dimension to the Lisbon process.
3) Improve Quality to Promote Sustainable and More Balanced Development

- Strengthen regional competitiveness through well targeted investment throughout the Union
- Secure a more balanced spread of economic activity, so that pressures of over-concentration, congestion, and bottlenecks can be reduced
- Using national programs to assist people in preparing and adapting to economic development so that full employment, the quality and productivity of work, and social integration can be achieved
4) Create a New Partnership for Cohesion

- Need greater efficiency, transparency, and political accountability
- Need to reinforce institutional capacities at all levels of government throughout the Union
- Education and training systems and development of human resources will be the principal themes of the co-financing of the national and regional programs
- Strategic planning, decentralized administration, and permanent supervision and assessment will underlie the goal of increased cohesion
Conclusion:

- Disparities may always exist, but the goal of solidarity demands a continued persistence toward the equalization of regions, especially in the forms of telecommunications, technology, and unemployment, with the largest challenge the EU will continue to face being that of enlargement.
References:

References: