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Regional development policy in context of Europe 2020 Strategy

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Abstract: The regional development promotes the balanced development of the European Union and, similarly, in all member state is treated as an integral factor of the state economic and social policy. Also, it promotes the growth model proposed by the future Europe 2020 Strategy, including the necessity of meeting the societal challenges, and those related to employment in the regions and in the Member-States. The appraisal of the implementation of the regional policy, whose goals and priorities were defined in the national and European strategic documents, calls for a general and specific objectives and financial instruments of that policy.

This article contains information's and elements about the next programming period and future regional policy of the European Union, in context of economic and social cohesion and convergence. From the perspective of the Europe 2020 Strategy, the regions shall continue to attract differentiated support depending on their economic development level (GDP/per capita), as a clear distinction is made between "less developed" and "most developed" regions.

JEL Classification: R11, R12, F02

Key words: regional policy; region; Structural Fund

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 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 (crisis, globalisation, ageing, migration). At the regional level, all these difficulties are more visible and pronounced. These aspects should be taken into account in future EU regional policy and in the national specific action for territorial development.

2. Actual context

Regional policy has an important European and national role to play in mobilising local resources and concentrating on the economic, social and endogenous development of potential. Thus, Article 174 of the Treaty *"calls for action by the member state of European Union to economic, social and territorial cohesion and sustains general and equilibrates development by reducing discrepancies between state and regions, and promoting development in least favored regions"*.

In 2004, the largest enlargement of the European Union took place with ten new member states. There were after followed by Romania and Bulgaria in January 2007 and Croatia in June 2013. These expansion of EU involve an unheard of amplitude in regional disparities (inter and intra).

Actually, in Europe, economic and social disparities are very high and it has significantly and different supported by the new and old member regions and member state, especially after 2009, when the crisis began to manifest. These differences are very higher between UE-27 regions NUTS 2: the most performing region is represented by Inner London (officially, the richest area in Europe) with 290% of EU-27's average GDP per capita, while the poorest region is Severozapaden (Bulgaria) with 21% of the average and 2900 euro per capita (Table 1). Thus, GDP per capita in 2010 indicate widely different situations. Among the 271 regions NUTS 2, Romania and Bulgaria account 13 of the 15 least prosperous regions (six regions from Romania and five from Bulgaria).

Table 1 – Regional GDP per capita in EU-27 in 2010 (in PPS, euro per capita)

The 6 Highest Regions	GDP/habitant (euro/capita)	The 6 Lowest Regions	GDP/habitant (euro/capita)
Hamburg	47.100,00	Severozapaden	2.900,00
Île de France	47.800,00	Severen tsentralen	3.100,00
Hovedstaden	49.100,00	Yuzhen tsentralen	3.200,00
Rég. Bruxelles / Brussels Gewest	59.800,00	Nord Est	3.400,00
Luxembourg	75.200,00	Severoiztochen	3.700,00
Inner London	75.900,00	Yugoiztochen	3.800,00

Source: Author compilations - Eurostat data

EU regional policy address regional disparities and solidarity between regions, strengthening the competitiveness and attractiveness of the all member state of EU, obtain economic and social cohesion by diminishing discrepancies between level of regional development and by diffusion the advantages of the common market across the

European territory. In actual programming period, the regional policy ranks first in terms of expenditure and coverage and have two important dimensions: competitiveness (efficient use of factors and resources) and territorial convergence (reduction of discrepancies between regions).

For this programming period, about one-third of total budget for cohesion and regional policy is allocated to the convergence objectives. From this point of view, the main instruments of cohesion policy are Structural Fund (European Regional Development Fund, Cohesion Fund and Social Fund), with the total value of €347.4 billion, with about 82% to be invested in the EU's poorest regions, concentrate on:

1. *Convergence objective* – cover 35% of the total population and regions with GDP per capita less than 75% of EU average; total value of this objective is 282.8 billion euro and is for improving the conditions for growth and employment; this objective cover 84 regions and 17 Member States. The amount of this objective is €282.8 billion (81.5% of the total), structured by *convergence regions* (€199.3 billion), cohesion regions (€69.6 billion) and phasing-out regions (€13.9 billion).

2. *Regional competitiveness and employment objective* (55 billion euro); cover 168 regions in 19 member states and 314 million inhabitants. In total regions, almost 13 regions are phasing-in territories and represent special financial allocations (former Objective 1 regions). The total amount is €54.9 billion and 16% (€11.4 billion) are for the phasing-in regions.

3. *European territorial cooperation objective* represent 2.44% in total structural funds – almost 8.7 billion euro – and cover the population in cross-border areas (181.7 million inhabitants and 37.5% of the total EU population). The funds are divided as follows: €6.44 billion for cross border projects, €1.83 billion for transnational projects and €445 million for interregional cooperation and networks between regions. The cross-border areas receive financial support from the European Commission through Interreg programme.

The priorities and objectives for 2007-2013 financial programming period has been determined by changes in the overall background of EU under internal and external pressures, crisis and globalization. The new paradigm of cohesion and regional policy consist of in creation the new opportunities rather than subsidies and compensations.

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

Within the European Union, the impact of structural funds (so-called absorption capacity) is evaluated periodically with the objectives of identifying the achievement the 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 realized 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 (interim evaluation) on the progress of regional and cohesion policy 2007-2013:

- The financial absorption capacity in terms of payments, for period 2007- 2010 - were transferred €152 billion (until January 2011) from the total communities budget to Member States for pre-payments and refund for objectives and regional projects. For this period, almost 50% of the payments (€75.5 billion) were the programming period 2000-2006.
- The total amount of pre-payments (2007-2013) is slightly higher (EUR 76 billion), the payments under the 2010 financial framework accelerated in comparison to the 2009.
- The fourth year of the actual period is characterized by a process of catching-up for both the yearly and aggregate expenditure. In the first years of actual period, Member States gave priority to closing the period 2000-2006, thus creating supplementary effect on institutional, absorption and administrative capacities.
- The rate of absorption rate was, at the end of 2010, approximate 20.5%, higher than the rate of absorption in precedent period (17.8%).

The main conclusion of the evaluation is that a low level of financial absorption is often associated with difficulties in administrative capacities, an insufficient strategic vision or different obstacles in implementation system.

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 , 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 fulfill the SMART criteria being directly linked to the trends registered on the labour market, by the sustainable and social development:

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. fulfillment 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. diminishment 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.

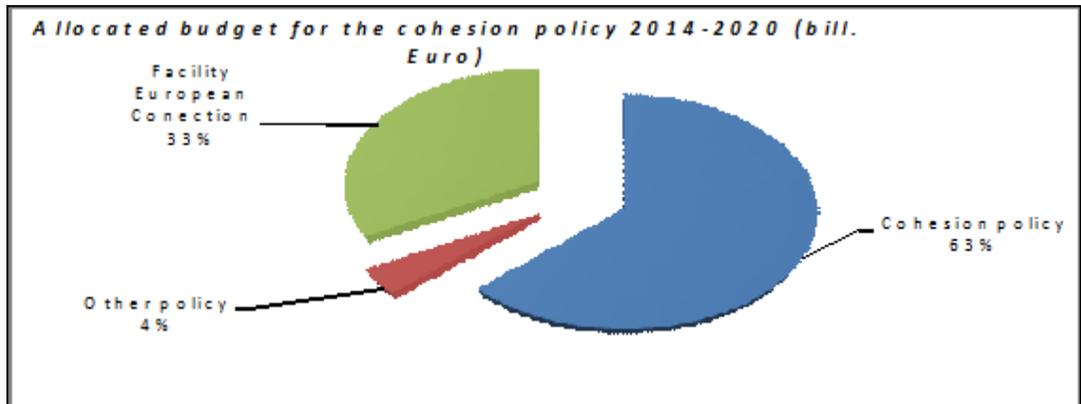
The development of the Strategy took into account possible implications on medium- and long-term of the financial and economic crisis, of the way in which budgetary and monetary policies shall be able to manage this phenomenon, and the direct support granted to the economic sector, etc.

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: Compiled by the author using European Commission data and Source: 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, ensure solidarity among its member state and convergence process. Also, it sustain the growth model establish by the Europe 2020 Strategy, including the necessity of meeting the societal challenges, and those related to labor 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 signaling 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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