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Regional policy of the European Union

Abstract

There are big disparities between the development of different regions and countries in Europe. Existing regional disparities in a country or in a group of countries such as the European Union make it necessary to apply regional policy, which can be defined as a set of policy instruments, which have been assembled for the purpose of achieving greater cohesion and the stimulation of economic activity in the less-favoured regions. Regional policy has positive influence on the development of declining regions and is needed to achieve greater cohesion between rich and weaker areas. It gives advantage to the whole economy by creating additional output and income arising from increased economic activity and avoiding costs of migration of individuals, who would otherwise have been forced to leave assisted areas. In the process of European integration, there is a special need for common regional policy in order to meet its influence on certain weaker territories, particularly peripheral areas and regions relying too much on stagnating activities and to ensure good functioning of the Common Market and, later on, economic and monetary union. Structural Funds are very powerful instruments in European regional policy. According to theoretical estimates, they resulted in accelerated growth rate in many backward regions and had an important cohesion impact, in terms of the reduction of income disparities. All estimates are positive about the impact of Structural Funds assistance on growth and employment in objective 1 regions. The European Union's regional policy achieved also greater interest in strategic thinking and planning and provided a comprehensive and integrated approach to the problems of regional development. The regional development of the European Union is a difficult, but also fascinating challenge. An efficient regional policy can enhance the well being of the regions in all their variety and beauty, but the process towards greater cohesion will take a very long time.

Introduction

The European Union is facing a pronounced problem of regional inequalities across its member states. European citizens want to know whether to expect convergence or divergence of regional incomes. The specific strategies and measures of regional policy are of great importance for the development of backward regions, but the growth rate of the economy in the Member Countries and the Union in general remains of crucial importance. The solution to the development in the poorest regions is accelerated growth in the EU as a whole. Because of the process of integration, the new reality in Europe has changed the traditional relationship between regions and increased the scope for interregional cooperation. Regional problems must be seen not only at the national level but also at the international level. Regional policy is needed to achieve greater cohesion and to correct negative impact of integration on certain weaker territories. By reducing regional disparities, Community ensure that all regions and their citizens can take full advantage of the single market and economic and monetary union. This is the real reason and aim of the Community's regional policy.

1. The theory of regional economic policy

The theory of regional policy is not very old. Before the world economic crises of the 1930s, it was believed that geographical distribution of economic development was determined by natural circumstances. From the theoretical viewpoint regional disequilibrium was thought to be only a temporary problem in a general automatic system of economic equilibrium. In fact, the basic assumptions of neoclassical theory, which are free competition, full employment of factors of production and full mobility of labour and capital, are often not fulfilled. This and several other factors are responsible for regional inequalities in a country or in a group of countries such as the European Union[1]. The common explanation for regional disparities lies in geographical situation of an area. A peripheral location may represent a disadvantage to region's economic prospects[2]. Also economic structure, sectoral composition of economy, political, institutional, psychological and environmental factors play an important role in regional development.

[1] N. Vanhove, *Regional Policy: A European Approach*, Ashgate, Aldershot 1999, p. 1–2.
[2] M. Porter, *The competitive advantage of nations*, The Free Press, New York 1990.

Rich regions have an influence on poor regions, which are in proximity to them. If it is negative influence leading to increase the inequalibility between regions, it is defined as backwash effect. From the other hand, spread effects are the beneficial effects enjoyed in poor regions because of their interaction with rich regions. There are three types of backwash effects:

1. First backwash effect concerns labour. If region A is expanding very fast it can be expected to attract labour from other parts of the country, in the first place from its neighbouring regions. Migration is always selective and migrants belong to the most dynamic groups, and the skilled are relatively more represented than the unskilled. As an effect, outmigration regions lose the most talented and vigorous workers, the persons with initiative and capacity for entrepreneurship.
2. A second backwash effect concerns capital movements. In strong regions investment is very important and savings tend to lag behind. There is the opposite situation in the problem areas. When there are no extensions of existing firms or new projects to invest in, savings will exceed the demand for capital.
3. A third backwash effect concerns trade. Widening the markets will often give a competitive advantage to the industries of the core regions, which usually work with increasing returns, and firms in the problem regions may have difficulties.

The economic development in a core region is not without positive impact on its less developed neighbour regions. There are identified three classical types of spread effects:

1. first of all, there are the increasing outlets for agricultural products, which are produced in less-developed regions;
2. the second spread effect may have more impact: the regions in the neighbourhood of a core region will be stimulated towards technical change;
3. third type of spread effect concerns localities where conditions are favourable for the production of raw materials for the growing industries in the centres[3].

There are different opinions, but the most popular feeling is that backwash effects are stronger than spread effects[4].

Existing regional disparities in a country or in a group of countries such as the European Union make it necessary to apply regional policy, which can be

[3] R. Domański, *Podstawy planowania przestrzennego*, PWN, Poznań Warszawa 1989, p. 68–69.

[4] N. Kaldor, *The case for regional policies*, Scottish Journal of Political Economy, Edinburgh 1970.

defined as a set of policy instruments assembled for the purpose of achieving greater cohesion and the stimulation of economic activity in the less-favoured regions. The objectives of regional policy may be achieved by introducing different instruments. There are micro-policy instruments, which are concerned with influencing the allocation of labour and capital between activities and regions and macro-policy instruments, which are concerned with changing regional income and expenditure. Regional policy has been dominated by the use of policy instruments to bring about a reallocation of capital and labour. The aim of regional policy is to induce capital and labour to locate in areas which would not normally have been chosen by the person making the location decision. This involves not only inducing capital to locate in depressed areas and labour to locate in areas where jobs are available but also inducing depressed areas to produce their own jobs through indigenous development. However, labour does not respond readily to regional differences in either wage rates or unemployment rates and labour mobility is far from perfect – either between regions or between occupations. Policies designed to stimulate an increase in the mobility of labour have played a relatively small role in regional policy. Much greater emphasis has been placed on policies designated to move capital into areas of high unemployment, not just because of the difficulties of removing the impediments to labour migration but also because of the fear that encouraging out-migration from depressed areas may cause regional problems to worsen[5].

Many theoretical models explain different reasons for implementing regional policy. They are to be found in economic, political and social fields. The first reason for regional policy is the need of full utilization of all factors of production. Problem areas have high unemployment rates. Spare resources mean a reduction of the gross national production of a country. The next very important economic argument in favour of a regional economic policy is the relationship that may exist between regional disequilibria and inflation rates. The greater the regional disparities within a country, the greater the propensity to inflation. Regional disequilibrium creates inflation or amplifies the inflationary movements. Nowadays, in an era of globalisation, regional policy has a special role and significance. One of the main objectives of regional development is the increased competitiveness of areas in an increasingly competitive global economy[6].

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[5] H. Armstrong, J. Taylor, *Regional economics and policy*, Blackwell Publishers, Oxford 2000, p. 232–235.

[6] Commission of the European Communities, *Europe 2000+: Cooperation for European Territorial Development*, Office for Official Publications of the European Communities, Luxembourg 1994.

2. Regional disparities in the European Union and motives for common regional policy

The regions of the European Union and the people living in them are not all equally well off in economic and social terms. The disparities between different regions in their levels of development and standards of living have long existed in every Member State. Looked at across the Union as a whole, the divergences are even more marked. Regional disparities in the European Union are expressed in many ways: population density, age structure, participation rates, production and income levels, in terms of employment balance, migration balance, economic structure, consumption patterns, unemployment, etc.

The key influence on regional economic performance has sectoral composition of economic activity. There is a distinction between regions that specialise in services, manufacturing or agriculture. Each of these types of regions has its strengths and weaknesses. To identify the most typical service, manufacturing and agricultural regions in the European Union, the 25 regions with the highest concentration of employment in each sector were selected. Although these regions represent extremes, this helps to identify common developments, which can then be used in the analysis of more mixed regions.

The regions most dependent on services are generally around Northern capital cities. Major urban centres are characterised by services, often concentrated in the more advanced sectors, as well as in communal services, which are mostly non-market. The top 25 service regions are among the most economically successful in the EU, with combined GDP per head of 27% above the EU average. In some of these regions, however, activity is concentrated in lower valued-added services, especially in the public sector. The absence of a strong private sector means that income tends to be low[7].

In contrast to services, manufacturing is more closely associated with smaller towns and cities and with polycentric urban networks. Most of the top 25 manufacturing regions are in or near central and Southern Germany and Northern Italy. Manufacturing is spread across regions and is most highly concentrated in intermediate areas, where networks of smaller towns and cities predominate. Although all towns are to some extent service centres, the economy of these towns is typically based on particular manufacturing sectors. The top 25 industrial regions are relatively strong economically and have GDP

[7] European Commission, *Sixth Periodic Report on the Social and Economic Situation and Development of the Regions of the European Union*, Office for Official Publications of the European Communities, Luxembourg 1999, p. 26.

per head 8% above the EU average. Generally, manufacturing regions are among the fastest growing regions in Europe. This reflects the fact that although many parts of manufacturing regions are in decline, the more advanced parts are performing well, at least in output terms. Because of high dynamics in development of service sector in the European Union in recent years, the highest rate of growth had these branches, which were connected with production for needs of service sector, mainly in the areas of health service, motorization, telecommunication and tourism[8].

The 25 regions with the highest concentration of agriculture are rural, peripheral areas in Scandinavia and the Mediterranean. In rural areas, there is also a dichotomy between strengths and weaknesses. On the one hand, they contain a wealth of natural resources, habitats and strong cultural traditions. They are increasingly important tourist locations for the pursuit of recreational and leisure activities. On the other hand, many rural regions are in marked decline. Traditionally, the role of agriculture in economic development has been viewed as passive and supportive. Its primary role was to provide sufficient low-priced food for manpower in the expanding industrial economy[9]. Rural areas tend to have low levels of output and income. Together they account for just over 20% of EU population, but their GDP per head is only 79% of the EU average. The poorest rural areas are located in the South of the Union, in Greece, Portugal, Southern Italy and Spain. Because agriculture is a relatively small sector in value-added terms (accounting for just 2% of the EU' GDP) and value-added per person employed is only around 42% of the EU average, it is difficult for regions to become prosperous through agriculture. However, for the more remote and less accessible regions, it can be difficult to develop other sectors to an adequate scale. The top 25 agricultural regions are all poorer than the EU average, with the exception of the Aland Islands in Finland[10]. Nowadays, development is often equated with the structural transformation of an economy whereby agriculture's share of the national product and of the labour force declines in relative importance[11].

There are different classifications proposed by many authors distinguishing a number of types of problem areas in the European Union. For

[8] Z. Wysokińska, J. Witkowska (red.), *Szanse eksportowe polskich przedsiębiorstw na rynkach zagranicznych. Uwarunkowania globalne i regionalne*, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 1997, p. 59.

[9] M. Todaro, *Economic Development*, Addison-Wesley, Reading 2000, p. 363-364.

[10] European Commission, *Sixth Periodic Report …* op. cit., p. 27.

[11] P. Knox, J. Agnew, *The Geography of the World Economy*, Edward Arnold, London 1994, p. 304 –305.

each type of problem region a corresponding regional policy must be implemented[12]. One of the classifications distinguishes seven types of problem regions:

1. First group consists of the peripheral regions of the EU characterised by a predominance of agricultural activity. These regions have a double handicap: they are peripheral, and oriented to a stagnating sector. Underdevelopment in the broad sense is a common characteristic. Typical examples are Greece, Ireland, southern Italy, Portugal, most regions of Spain and the northern part of Finland.
2. In the second group there are the other agricultural regions. These regions have, in comparison to the first group, the advantage that they are not peripheral and their population density is much higher. Typical examples of this group are Schleswig-Holstein in Germany and the North of the Netherlands.
3. In the next group, there are the stranded regions (depressed areas, declining regions). They may be coal-mining areas, textile regions or regions dominated by ship building activity. Typical members of this group are South Wales, the North of England and Wallonic in Belgium.
4. A special type of problem area is formed by the new Lander of Germany (former East-Germany). In 1989 these regions were confronted with a completely different economic system.
5. The next group consists of the frontier regions on either side of a border. In many documents of the European Commission, a few years ago, they were looked upon as very important problem regions. In fact, they are not in a very bad situation, for they are the first to benefit from economic integration. However, they have (or had) one common characteristic: the lack of, or the insufficient coordination of infrastructure (roads, railways, canals, etc.).
6. As problem regions, there are distinguished areas with a very low population density, for example northern regions of Sweden and Finland.
7. The last group of problem regions are the conurbation regions. Although the income levels in these regions belong to the highest in Europe, since the late 1970s, many agglomerations are confronted with their own problems, known as 'inner-city problems' with high unemployment figures. No real Community regional policy can be conceived without paying attention to the

[12] Commission of European Communities, *The Regions of the Enlarged Community: Third Periodic Report on the social and economic situation and development of the regions of the Community*, European Communities, Brussels 1987.

economic, social, and environmental problems of the big conurbation regions[13].

The question is why should a supra-national body such as the European Union have regional policy. There are many arguments used to justify a separate regional policy at the Community level. Integration process has an unequal impact on the different regions of the Community. Regional policy is needed to meet its influence on certain weaker territories, particularly peripheral areas and regions relying too much on stagnating activities. The structural differences in the individual countries are a danger for the development of the Common Market. It is essential to eliminate regional and structural disparities to such an extent that a real start can be made with a common economic policy. A number of other common policies could be realised more easily and much faster if they were sufficiently linked to a programme of regional policy. The specific justification of a regional policy at the Community level is its contribution in the first phase, to a good functioning of the Common Market and, later on, to the economic and monetary union[14].

There are distinguished three approaches, which may lie behind a EU regional policy: compensational, redistributive and endogenous growth approaches. These approaches are linked to the theoretical foundation of regional policy. Compensational approach is identified as a neoclassical, and redistributive as a Keynesian approach.

1. The compensational or neoclassical approach suggests that regional policy is motivated by the need to compensate a Member States of membership. The national policy instruments lost (e.g. customs duties or other measures which could otherwise be used to protect the interests of its own national regions) should be compensated by new ones, which the EU can operate in favour of the less favoured regions.
2. The rationale of the redistributive approach is that of achieving a more equal distribution of resources through growth from which all parties will benefit. The aim of regional policy is to achieve a more equal distribution of income and welfare among the regions.
3. The third approach to regional policy is the endogenous-growth policy approach. According to this approach, the disparities in income or unemployment are not the main indicators of a problem region but the unbalanced use of local resources in the various regions[15].

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[13] N. Vanhove, *op. cit.*, p. 122–123.

[14] F. Doyle, *Regional policy and European economic integration. Report on economic and monetary union in the European Community*, Luxembourg 1989.

[15] N. Vanhove, *op. cit.*, p. 438–439.

3. Regional policy of the European Community until 2000

Regional policy of the European Union has its origin in the Treaty of Rome of 25 March 1957, but it was practically initiated in the 1960s and early 1970s. Regional economic policy at the Community level was formed step by step. There were three main phases of regional policy at the Community level:

1. Years 1958 – 1973/1975 – there was lack of regional policy of the European Community. Only Italy was interested in regional problems because of lagging behind of Mezzogiorno.
2. Years 1973/1975 – 1988 – because of enlargement of the European Community, there was more interest in regional problems. New stage of regional policy began with establishing its main instrument – the European Regional Development Fund.
3. After 1988 until now – the fundamental reform of European Union regional policy in 1988 took place because of willingness to increase the effectiveness of the Structural Funds. It was also recognised that the establishment of a single market would enhance pressure for economic and social cohesion. Regional policy has become one of the most important policies of the EU[16].

Until year 1988, the European Community had had at its disposal a number of instruments of regional policy:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF),
- European Agriculture Guidance and Guarantee Fund (EAGGF),
- European Investment Bank (EIB),
- New Community Instrument (NCI),
- The European Coal and Steel Community (ECSC) conversion loans.

The European Regional Development Fund (ERDF) has been the most important instrument of the regional policy of the European Union. It was established in 1975 and was an important milestone on the road to integration in Europe. For the first time since 1958, the Community decided on specific measures designed to help to reduce its regional disparities.

The reform of regional policy of the European Union in 1988 joined together all independent Structural Funds. The main principle of the reform was to concentrate on five objectives. Objective 1, 2 and 5b had specifically regional

[16] Z. Wysokińska, J. Witkowska, *Integracja Europejska: rozwój rynków*, Wydawnictwo Naukowe PWN, Warszawa Łódź 2001, p. 240–241.

character, whereas objectives 3, 4 and 5a focused on priority fields and covered whole territory of the Community.[17] The most important was objective 1, which promoted the development and structural adjustments of the regions whose development was lagging behind. The eligibility criterion was GDP per head less than 75% of the EU average. Objectives for 1989–1993 period were:

objective 1: promoting the development and structural adjustment of the regions whose development is lagging behind,

objective 2: converting the regions, frontier regions or parts of regions seriously affected by industrial decline,

objective 3: combating long-term unemployment,

objective 4: facilitating the occupational integration of young people,

objective 5: with a view to reform of the common agricultural policy

a) speeding the adjustment of agricultural structures, and

b) promoting the development of rural areas.

Reform in 1993 changed a little objectives of European Union regional policy. Objective 4 was changed on "facilitating adaptation to industrial change". This objective focused on those already in employment, equipping them with new skills to help them to adapt to changes and to prevent unemployment. It also helped to produce a more highly skilled labour force. New Objective 6 focused on development and structural adjustment of regions with an extremely low population density.

Table 1. Analysis of interventions by Objective and source of funding, 1994–1999 (in millions ECU, 1994 prices)

Objective	Total	Share	ERDF	ESF	EAGGF	FIFG
1. Lagging regions	93970	68.00%	56427	22051	13708	1784
2. Declining industrial areas	15352	11.11%	11819	3533	-	-
3 and 4. Unemployment	15182	10.99%	-	15182	-	-
5a. Agriculture	5252	3.80%	-	-	5252	-
5b. Fishing	884	0.64%	-	-	-	884
5b. Rural development	6859	4.95%	2953	1041	2865	
6. Low population	698	0.51%	289	167	234	8
Total	138198	100%	71488	41974	22059	2676

Source: European Commission, *The impact of Structural Policies on Economic and Social Cohesion in the Union 89–99*, Office for Official Publications of the European Communities, Luxembourg 1996, p. 155.

[17] J. Szlachta, *Programowanie rozwoju regionalnego w Unii Europejskiej*, Wydawnictwo Naukowe PWN, Warszawa 1997, p. 27-28.

Objectives 1, 2, 5b and 6 had typically regional character, but objectives 3, 4 and 5b were centred on specific problems rather than on regions. Table 1 analyses interventions from the Structural Funds in the 1994–1999 period by objective.

The reform in 1988 year underlined also the principles of concentration, programming principles, partnership, additionality, complementarities of actions, subsidiarity, coordination, compatibility, cohesion, monitoring and evaluation[18].

In the period 1994–1999, there were 16 Community Initiatives, which are special financial instruments proposed by the European Commission on its own initiative to the Member States to support measures, which will help to solve problems having a particular impact at the Community level[19]. Community Initiatives were often criticised by many States, because they had high administrative and organisational costs, their implementation was very bureaucratic and they were perceived to duplicate existing regional and sectoral programmes[20].

Apart from Structural Funds, there is also Cohesion Fund, which is an essential element of economic and social cohesion. It was created in 1992 to help less prosperous Member States: Greece, Ireland, Portugal and Spain to prepare for European Monetary System. Cohesion Fund does not support regions, but countries with GDP per head less than 90% of the Community average. Cohesion Fund finances two types of projects:

1. projects of common interest to establish or develop transport infrastructure, primarily where these are included in the trans-european transport network guidelines;
2. projects that help to achieve the goals of the Community's environmental policy:
   - preserving, protecting and improving the quality of the environment;
   - protecting human health;
   - prudent and rational utilisation of natural resources.

[18] J. Bachtler, I. Turok (eds.), *The Coherence of EU Regional Policy, Contrasting perspectives on the Structural Funds*, Regional Studies Association, Regional policy and development series: 17, Jessica Kingsley, London 1997, p. 18–19.

[19] Commission of the European Communities, *Guide to Community Initiatives*, Office for Official Publications of the European Communities, Luxembourg 1991.

[20] J. Bachtler, I. Turok (eds.), *op. cit.*, p. 358.

4. Regional policy of the European Union after 2000

In 1989–1999 years, the Structural Funds have been a powerful instrument of the regional policy of the European Union. However, the Commission learned lessons from the experience and decided to improve its efficiency, which is the central principle of the 2000–2006 programming period. "The reduction of economic and social disparities depends not only on a real medium-term vision of territorial development and human resources supported by adequate resources, but also on a demanding and decentralised partnership in order to facilitate the preparation of integrated regional and social development strategies. This is the background against which the Union's structural instruments will be radically adapted to make them more effective through simplification, evaluation and auditing"[21].

Following the political agreement reached during the Berlin European Council (24 and 25 March 1999) and the approval of the European Parliament (6 May 1999), on 21 June 1999 the Council formally adopted the new Structural Funds Regulations for the period 2000–2006. In the field of regional and labour market policies, the Council agreed to allocate a total of 195 billion euro to the Structural Funds for the 2000–2006 period. In order to operationalize the new budgetary framework for regional policies, the present number of assisted areas in the European Union was reduced. The share of assisted regions went down from 51 per cent of EU – population in the period 1994–1999 to 41 per cent in 2000–2006. Some of the cohesion countries are no longer covered in their entire territory by objective 1 policies[22]. The main characteristics of reform of regional policy for 2000–2006 programming period are:

- a reduction in the number of objectives from six to three and Community Initiatives from fourteen to four;
- one single Structural Fund integrated programme per region (NUTS level 2). It will be implemented in the form of a Community Support Framework for objective 1 regions and a Single Programming Document for objective 2 areas;
- decentralised programming. In the framework of a Community Support Framework or a Single Programming Document the Commission must only agree on the priorities and the corresponding appropriations. Measures are no

[21] European Commission, *Agenda 2000. For a stronger and wider Union*, Office for Official Publications of the European Communities, Luxembourg 1997, p. 21.

[22] G. Tondl, *Convergence After Divergence? Regional growth in Europe*, Springer-Verlag, Wien, New York 2001, p. 344.

longer part of a Community Support Framework or a Single Programming Document. This implies a clear division of responsibilities and decentralised management and the detailed programming will be entirely the responsibility of the Member States;

- improving the additionality principle via a negotiated additionality and verification ex ante, mid-term and before the end of the programming period;
- introduction of a performance reserve. This reserve should be allocated half-way through the programming period to regions with good performance in terms of implementation and results and after verification of the mid-term verifications of additionality;
- a more precise partnership. The Commission, national, regional and local authorities will identify in partnership the priorities for development and assistance. Also a broadening of the partnership is foreseen. The partnership will be extended to regional and local authorities as well as social partners and environmental authorities[23].

For the programming period 2000–2006 the number of objectives has been reduced to three:

objective 1: promoting the development and structural adjustment of regions whose development is lagging behind;

objective 2: supporting the economic and social conversion of areas facing structural difficulties;

objective 3: supporting the adaptation and modernisation of policies and systems of education, training and employment[24].

The number of objectives was reduced because of one of the weaknesses of the implementation of the Structural Funds in the first and second programming period, which was insufficient concentration. In comparison to 1994–1999, Objective 1 was not changed, new objective 2 relates to the former objective 2 and 5b and new objective 3 to the former objectives 3 and 4.

Under the new Regulations, regions or areas that were eligible for regional assistance under the Objectives in 1994–1999, but which are no longer eligible in 2000–2006, qualify for an appropriate level of degressive transitional assistance. Its aim is to avoid an abrupt cessation of Community funding and consolidate the achievements of earlier structural assistance.

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[23] A. Jenik, *Nowe zasady działania funduszy strukturalnych i perspektywy rozwoju polityki regionalnej Unii Europejskiej w latach 2000–2006*, in: M. Klamut, *Konkurencyjność regionów*, Wydawnictwo Akademii Ekonomicznej im. Oskara Langego we Wrocławiu, Wrocław 1999, p. 277–281.

[24] I. Pietrzyk, *Polityka regionalna Unii Europejskiej i regiony w państwach członkowskich*, Wydawnictwo Naukowe PWN, Warszawa 2001, p. 142-143.

Among those areas, which are no longer eligible for Objective 1 funding, a distinction should be made between those, which, in 1999, meet the basic eligibility criteria for funding under the new Objective 2 and those that do not. The former are entitled to transitional assistance from the four Structural Funds until the end of 2006, whereas ERDF funding for the latter will be stopped in 2005.

Areas eligible under Objectives 2 and 5(b) in 1999 that do not qualify for the new Objective 2 are entitled to transitional assistance from the ERDF until 31 December 2005. Other assistance may also be available between 2000 and 2006: from the European Social Fund under Objective 3, from the EAGGF Guarantee section as part of rural development schemes (including the accompanying measures to the Common Agriculture Policy), and from the FIFG (as part of the accompanying measures to the common fisheries policy)[25].

One of the characteristics of the reform of regional policy is more precise partnership and decentralised programming. There are specified responsibilities and stages of programming at Community and national level and space for consultations and negotiations in the framework of partnership.

1. Programming at the Community level.

The Commission adopts the list of regions eligible under Objective 1 and Objective 2, indicative allocations of total appropriations for each Member State, indicative guidelines for the programming of Objectives (after consultation with the Member States) and the guidelines for each Community Initiative (objectives, scope and method of implementation).

2. Programming at national level.

The authorities designated at national/regional/other level prepare the plans and programmes, consult the partners, forward the plans and programmes to the Commission and implements the programme (in particular, organising the selection of projects).

3. Negotiations between Commission and Member States.

The Commission and the Member States negotiate the content of the CSFs or SPDs, and their financing plans. After negotiations, the Commission adopts them and approves (or, stating its reasons, rejects) the major projects and global grants within the programmes [26].

The biggest share of Structural Funds assistance goes to Spain, followed by Italy, Germany, Greece, Portugal, and the United Kingdom, as shows table 2.

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[25] European Commission, *Structural Actions 2000–2006. Commentary and Regulations*, Office for Official Publications of the European Communities, Luxembourg 2000, p. 11–13.

[26] N. Vanhove, *op. cit.*, p. 550.

Table 2. Indicative funding allocations per Member State in the 2000–2006 period (in millions EUR, 1999 prices)

Country	Objective 1	Objective 2	Objective 3	Transitional assistance and Instrument for fisheries	Total	Per cent of total Structural Funds allocations
Belgium	0	368	737	724	1829	0.07
Denmark	0	156	365	224	745	0.41
Germany	19229	2984	4581	1362	28156	15.34
Greece	20961	0	0	0	20961	11.42
Spain	37744	2553	2140	650	43087	23.47
France	3254	5437	4540	1389	14620	7.96
Ireland	1315	0	0	1773	3088	1.68
Italy	21935	2145	3744	660	28484	16.45
Luxembourg	0	34	38	6	78	0.04
Netherlands	0	676	1686	273	2635	1.44
Austria	261	578	528	106	1473	0.80
Portugal	16124	0	0	2905	19029	10.37
Finland	913	459	403	61	1836	1.00
Sweden	722	354	720	112	1908	1.03
United Kingdom	5085	3989	4568	1993	15635	8.52
EUR 15	127543	19733	24050	12238	183564	100

Source: European Commission, *Structural Actions 2000–2006. Commentary and Regulations*, Office for Official Publications of the European Communities, Luxembourg 2000, p. 19.

Although there has been some progress, Spain, Greece, Portugal and Ireland will continue to receive Cohesion Fund support during the period 2000–2006 because their GNP is still below the threshold set. In March 1999 the Berlin European Council decided to allocate to the Cohesion Fund a budget of EUR 18 billion for the period 2000–2006.

Resources are to be distributed among the four recipient countries in accordance with the following bands: Spain from 61 % to 63.5 % of the total, Greece from 16 % to 18 % of the total, Portugal from 16 % to 18 % of the total and Ireland from 2 % to 6 % of the total.

This distribution is based primarily on population, per capita gross national product (taking into account the increase in national prosperity during the previous period), and surface area. If a country is no longer eligible for Cohesion Fund support after the mid-term review, the appropriations which would have been allocated to that country during the period 2004–2006 will be deducted from the overall budget[27]. This may take place in the case of Ireland.

For the third programming period 2000–2006, the number of the Community Initiatives was reduced to four:

Interreg III: cross-border, transnational and interregional cooperation intended to encourage the harmonious and balanced development and spatial planning of the European territory;

Leader + : rural development via integrated programmes and cooperation between local action groups;

Equal: transnational cooperation to promote new approaches to combating all forms of discrimination and inequalities in connection with access to the labour market;

Urban: the social and economic regeneration of towns and neighbourhoods in crisis, with a view to promoting sustainable urban development[28].

Although different groups or regions have lobbied to extend the number of the Community Initiatives, there is an opinion that: the Community Initiatives are perceived to duplicate existing regional and sectoral programmes undertaken by other parts of the Commission or national governments and many priorities could be readily incorporated within the Community Support Frameworks. But there are other arguments. The Community Initiatives generate a lot of bureaucracy and management and monitoring costs are very high. The size of the programmes is in many cases too small-scale to have any significant impact, which makes it difficult to implement projects with a leverage effect. In the years 1994–1999, Community Initiatives included 400 projects realised in the framework of 13 programmes. Furthermore, the projects proposed are not always very adequate for regional development[29].

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[27] Council Regulation (EC) No 1264/1999 of 21 June 1999 amending Regulation (EC) No 1164/94 establishing a Cohesion Fund, Official Journal of the European Communities, Article 1.

[28] Council Regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds, Official Journal of the European Communities L 161/20–21.

[29] D. Yuill, J. Bachtler, *European Regional Incentives 1999*, University of Strathclyde centre for the study of public policy, Strathclyde 1999.

5. Central and Eastern Europe and regional policy of the European Union

Many countries from Central and Eastern Europe are candidates to the European Union. Taking into account ten CEE countries: Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, there are following conclusions regarding possible enlargement of the European Union:

1. A EU25 would imply an increase of 105 million inhabitants or 28 %. Taking into account the geographical location of these applicant countries, this would move the centre of gravity of EU to Central Eastern Europe. The demographic characteristics of the CEE countries are partly similar to the ones of the present EU countries. Birth rates are low and the population is ageing. Declining mortality rates do not compensate low birth rates.
2. GDP per capita in PPS is only 40 % lower of the EU average. In the purchasing power of the EU25, the ten CEE countries represent about 10 %. This means that the centre of gravity would move less to the East in terms of GDP than in terms of population.
3. Regional income disparities at the national level would increase from 2.4:1 in the EU15 to 7.2:1 in the EU25. The disparities would be much greater at NUTS level 1 or 2. Extreme disparities at NUTS level 2 of more than 10:1 are certain.
4. Employment in agriculture in CEE countries amounts 22.5 % (5.1 % in the EU) with a maximum of 37.3 % in Romania and 26.7 % in Poland. In both countries, there are many regions where agriculture employs more than half of the active population. Agriculture is not only dominant in many CEE countries, it is on average very poor. The 22.5 % of agricultural population only represent 6.8 % of GDP of the CEE countries.
5. More than 40 years of central planning has left its mark on most Central and Eastern Europe countries' regions. There are several other problems such as:
   - sectoral crises of heavy industry in mono-activity regions (coal and iron-ore mining, the steel industry, armaments) (e.g. Katowice in Poland, Ostrava in the Czech Republic, Baranya in Hungary, etc.)[30];
   - regions with environmental degradation (e.g. upper Silesia in Poland, the coal basin of north-west Bohemia in the Czech Republic);

[30] M. Hallet, *National and Regional Development in Central and Eastern Europe: Implications for EU Structural Assistance*, Economic Papers, Brussels 1997, no 120.

- regions with demographic pressures (ageing of population and/or potential ethnic tensions).

6. In terms of economic potential five (the Baltic States, Romania and Bulgaria) of the ten CEE countries have a very low score. They have a position similar to most regions of Sweden, Finland, Greece and the south-west of the Iberian Island. The Czech Republic shows a relatively high economic potential. The opposite of economic potential is the peripherality index. All Central and Eastern Europe countries show a high to very high peripherality index (from 82 for the Czech Republic to 98 for Estonia).[31]

On the basis of the regulations in force and the new regulation for the period 2000–06, all applicant countries would be eligible for assistance under objective 1. If all CEE countries were to accede during the third programming period, the objective 1 regions would increase to a population of about 187 million or 39 per cent of the EU25 population. This implies that in the fourth programming period, after 2006, many of the present beneficiaries of EU structural policy, will be excluded. The same applies to the assisted areas in the framework of competition policy.

Following the enlargement of the EU, the trade pattern between the present EU countries and the CEE countries will have the regional impacts. The CEE countries will be interested in buying products with a relatively high technological content, which are mainly produced in the richer EU regions. In return the EU is expected to buy low-tech, labour intensive products, agricultural products from the CEE countries. This will affect in the first place the poorer regions of the European Union.

The importance of a strategic planning approach for regional development applies to the regions of the EU and is also of great value for the Central and Eastern Europe countries and their regions. Furthermore, strategic thinking and programming is a pre-condition for making use of the Structural Funds or pre-accession aid. A first strategic choice, which is quite often raised, is allocational efficiency versus equity. The question is what level of resources should be allocated to the effort to improve efficiency (i.e. national economic growth) and what level to increase equality (i.e. to combat poverty and give opportunities to residents in deprived regions)[32].

The CEE countries should pay much attention to small and medium enterprises. It will not be difficult to attract foreign investment to the capital regions. Endogenous development will be more difficult. There is no or

[31] N. Vanhove, *op. cit.*, p. 576–579.

[32] W. Molle, *Economic Integration and Cohesion in Europe: Past and Future*, Ashgate, Aldershot 1998, p. 18.

insufficient entrepreneurial tradition in the former socialist countries. Several regions not only have a monostructure but on top of that they depend on one large enterprise with an out-of-date production process. Regional policy should encourage the creation of small and medium enterprises in many sectors.[33]

The most important aid from the European Union to the Central and Eastern Europe countries is delivered from three instruments:

1. Phare programme. Financial assistance provided by this instrument for the period 2000–06 totals EUR 1560 millions per year (in EUR million at 1999 prices). The first priority is to help the administrations of the partner countries acquire the capacity to implement the "acquis communautaire" (national and regional administrations). The second priority is to help the applicant countries bring their industries and major infrastructure up to Community standards.[34]
2. A second pre-accession instrument is ISPA (Instrument for Structural Policies for Pre-Accession) with an amount of EUR 1040 per year. Assistance from this fund will be targeted at two areas:
   - the environment, to enable the beneficiary countries to comply with the requirements of Community environmental law;
   - transport infrastructure measures which promote sustainable mobility and improve connections between the CEE countries, the trans European networks, and their extension eastwards.[35]
3. Next pre-accession instrument is SAPARD (Special Accession programme for Agriculture and Rural Development). This found amounts to 520 million EURO each year to be funded out of the Guarantee Section of EAGGF. It includes a wide range of measures for rural development (e.g. investments in agricultural holdings, improving the processing and marketing of agricultural and fishery products, etc.).

Financial assistance for Central and Eastern Europe countries provided by these three instruments for the period 2000–2006 totals EUR 21.84 billion (at 1999 prices).[36]

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[33] N. Vanhove, *op. cit.*, p. 582–583.

[34] Council Regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the pre-accession strategy and amending Regulation No 3906/89, Official Journal of the European Communities, L 161/69.

[35] Council Regulation (EC) No 1267/1999 of 21 June 1999 establishing an Instrument for Structural Policies for Pre-Accession, Official Journal of the European Communities, L 161/75.

[36] European Commission, *Structural Actions 2000–2006* … op. cit., p. 126.

6. Effects of regional policy of the European Union

The reform of the Structural Funds established a very powerful instrument in Community regional policy and for cohesion in general. They improved the infrastructure deficiencies and upgraded the skill of the labour force in all least favoured regions. Structural investments in human and physical capital have amounted to 8 per cent of total capital accumulation in the four cohesion countries over the period 1994–1999[37]. It resulted in an accelerated growth rate in the cohesion countries and many backward regions. There are many researches and models concerning growth and employment impacts of Structural Funds. The model of Beutel, who conducted a prior-appraisal for the 1994–99 period, indicates, that without the support of the Structural Funds growth rate in the regions covered by objective 1 would be 0.7 % lower, as shows table 3.

Table 3. Estimated growth with and without the support of the Structural Funds in the cohesion countries for 1994 – 1999 programming period according to Beutel model

Region	Estimated growth with Structural Funds in %	Estimated growth without Structural Funds in %	Higher growth rate (difference between estimated growth rate with the impact of Structural Funds and without) in %
Greece	2.0	0.9	1.1
Spain (obj. 1)	2.4	1.7	0.7
Ireland	4.1	3.4	0.7
Portugal	2.9	1.9	1.0
Objective1 regions	2.2	1.5	0.7

Source: Beutel J., *The economic impacts of Community supports frameworks for the objective 1 regions 1994–1999*, Luxembourg 1995.

Interesting results are in the report of the European Commission from 1996 year entitled “The impact of structural policies on economic and social cohesion in the Union 1989–1999”, as shows table 4. The figures for Ireland are not given in a comparable manner[38].

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[37] N. Vanhove, *op. cit.*, p. 513-514.

[38] European Commission, *The impact of Structural Policies on Economic and Social Cohesion in the Union 89–99*, Luxembourg 1996.

Table 4. The effect of Structural Funds on growth rate and employment in three cohesion countries

Region	Period 1989–1993		Period 1994–1999	
	Higher growth rate (difference between estimated growth rate with the impact of Structural Funds and without)	New jobs created	Higher growth rate (difference between estimated growth rate with the impact of Structural Funds and without)	New jobs created
Portugal	0.5–1.0 %	80000	0.7 %	100000
Spain	0.25 %	115000	0.7 %	150000–200000
Greece	0.8 %	130000	0.9 %	180000

Source: European Commission, *The impact of Structural Policies on Economic and Social Cohesion in the Union 89–99*, Office for Official Publications of the European Communities, Luxembourg 1996.

Although the results of the different researchers and models are not the same (even in the official European Commission documents, there are different results for the same study) there is the conclusion in the Sixth Periodic Report that "the fact that widely differing models point in the same direction is encouraging. The general conclusion appears to be one of an importantly cohesion impact, in terms of the reduction in income disparities, and this is supported by a variety of theoretical approaches"[39].

It is important to notice that all estimates are positive about the impact of Structural Fund assistance on growth and employment in objective 1 regions. This leads to convergence and greater economic cohesion within the European Union.

Community regional expenditure influences the development of objective 1 regions in two ways: by rising productive capacity or so-called supply-side efficiency (co-financing of investment in physical and human capital), and by demand effects (stimulating output and employment. Demand effects have an impact in the short and medium-term, and supply effects are long term. In reality in most cases both effects are related. A new infrastructure investment has only an impact after some years; the investment itself has more or less immediately demand effects. Income transfers also allow imports to be increased without a worsening of the balance of payments of cohesion countries. Overall, it is estimated that a quarter of the amount transferred to the four

[39] European Commission, *Sixth Periodic Report* ... op. cit., part 3.

cohesion countries through structural assistance returned to other Member States in form of imports (less than 10 % to third countries)[40].

Not only the size of the Structural Funds contributed to accelerated investment and growth, but also its new approach, mainly the programming approach. The regional policy of the European Union achieved a number of positive points and advantages:

- greater interest in strategic thinking and planning;
- regional development agencies and other institutions and various other groups have been encouraged to participate in economic development thinking;
- the EU approach is to invest in the supply-side of assisted regions and to improve their competitiveness (endowments of infrastructure, human capital and technology or growth through accumulation of public capital, human capital and knowledge) and is not meant to boost current incomes;
- emphasis on productive investment and job creation;
- the Structural Funds are intended to provide a comprehensive and integrated approach, creating synergies and positive spin-offs through a series of coordinated measures,
- the Commission encouraged greater dynamism and innovation in the regional development and supported shaping the policy priorities of regional programmes;
- reducing negative impact of integration on certain weaker regions[41].

The effects of regional policy in cohesion countries are positive. Since the late 1980s, they had higher rate of growth than the Community average. The main contribution to catching up made by these countries came from urban centres. The group of more favoured regions have caught up relatively quickly, while the less favoured regions in these countries have taken longer. An interesting point is that a slight reduction in an overall disparity in recent 15 years decomposes into a sharp reduction in disparities below the mean and an increase above the mean. Both the richest and the poorest regions have improved their score relative to the average.

The effectiveness of the Funds could have been greater if some Member States had been more interested in the development of backward regions than merely maximising their share of the available budget and using of the Funds for other purposes. There were the difficulties of implementing the principle of additionality in the field. After reform in 1988 year, regional policy has been a central part of the efforts to take economic integration forward. From the other

[40] N. Vanhove, *op. cit.*, p. 513.

[41] J. Bachtler, I. Turok (eds.), *op. cit.*, p. 80.

hand, since that time regional policy at the national level among Member States has been in decline. Efficiency of regional policy could be better. The organisational and administrative costs of operating the systems of Structural Funds are very high. This is the main disadvantage of regional policy of the European Union.

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