EU Regional and Cohesion Policy. Analysis 2007-2013 vs. 2014-2020

Elena-Daniela Onica[1]

Abstract: The EU cohesion policy aims at reducing disparities between EU regions, knowing that there are major development levels among all member states. Through the financial instruments of the regional policy, certain incentives are sustained in order to generate economic growth, competitiveness, job creation, all of them having the same goal, namely to increase the life standards of EU citizens. The actual stage of research underlines that regional solutions should be implemented for regional problems and therefore nowadays it is considered necessary to build a model of regional development. The regional development policy is financed from the EU budget, in that regard the article tries to make an analysis on the financial allocations between the current financial perspective 2007-2013 and the new financial framework 2014-2020. Due to budgetary constraints the total amount allocated for the next 7 years is situated beneath the financial allocations for 2007-2013 for the first time.

Keywords: EU regional development policy; New Financial Framework; competitiveness

JEL Classification: R11; R58; O10

1. Actual Stage of Research in the Field of Regional Policy Instruments

The researchers Fujitu, Krugman and Vanable revealed that: „*the economies of different states are characterized by heterogeneity, and consequently the economic relation between them must be treated taking into account the diversity*". Therefore, it is recommended that the assembly of regional policy instruments should serve the national economic policy of each EU member state, in order to reduce the disparities between life standards of EU citizens (Constantin, Ionescu & Marchis, 2006).

The European integration process contributes to the attenuation of borders between member states, by eliminating the commercial obstacles, assuring the free circulation of factors of production and by removing the state aids. This idea was underlined also by Krugman which showed that: "*the more unified the European market is, the mobility of capital and the labor market becomes increasingly higher*

[1] PhD, Onica Elena-Daniela, Academy of Economic Studies, Bucharest, Counsellor at Fight against Fraud Department, Bucharest, Romania, Address: 6 Piața Romana Bucharest 010374, Romania, Tel.: +40213191900, Corresponding author: doct_daniela@yahoo.com.

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and there is no use to approach the economic relations between member states in terms of international commerce, but rather in terms of interregional commerce".

The researchers Batchler, Wishlade and Yuill considered that: "*the development of regional policy in an expansive European Union cannot be realized only from the national perspective, without taking into account the existing connections between national regional policies, the European regional policy and the EU competition policy*". Enhancing the European integration process had as result the deepening of the inequalities regarding the economic development of the member states, relevant discrepancies being found at regional level. At EU level, researchers had identified three types of regions (Plumb & Zamfir, 2002), as follows: prosperous regions which are at the ground of the economic development within their countries - Banden-Wuntenberg (Germany), south-east of England, Catalonia (Spain), Rhone-Alpes (France);regions with industrial traditions, which undertake sustained efforts for the growth of the competitiveness – the Basque Country (Spain), Liguria (Italy), Lorena (France);regions with structural deficiencies, which are under the community average, such as Mezzogiorno regions in Italy (Calabria, Campania, Sicilia, Pulia, Sardinia, Basilicata and Molise), east German lands, Castilla-La Mancha (Spain), Auvergne (France), Scotland (United Kingdom).

The results of the studies on the regional policy instruments of member states led to the identification of six typologies of regional policy instruments (Wishlade & Yuill, 2001), as follows: regional incentives, particularly in the form of investments directed at assisting the companies; promoting measures to ensure the general development framework of the business; infrastructure development; the development of regional strategies; controlling the disposing of the economic activities and the discouragement of the firms' localization in crowded areas; the adequate spatial distribution of the economic activities belonging to the state.

Practice showed that the importance of the last two categories of regional policy instruments had considerably decreased. Controlling the disposing of the economic activities, as instrument of regional policy, was especially used between 1970-1980, mainly in France (Ile de France and Paris regions) and in United Kingdom (London and South-East). Nowadays, only France and Greece still encourage the decongestion of the capitals and the location of the economic activities out of them. Regarding the distribution of the economic activities belonging to the state, it can be stated that Italy used that instrument extensively. The privatization of the industrial activities led to reducing the state influence on localization of industrial activities and to coming out of unemployment, even in the prosperous regions. For example, in France was taken into consideration the movement of public services outside Paris, as a measure to revitalize some declined urban centers. In Denmark, the territorial relocation of central public authorities was considered a way to solve the regional problems.

Regarding the other instruments of the regional policy, the researchers appreciate that they are operational at the level of all member states and they are differently used from one state to another. Studies revealed that lately the focus is on regional planning which: "*is materialized on regional social and economic development programmes at two levels: national one, including the regional characteristics and at the level at each region*" (Constantin, 2004), detrimental to regional incentives.

The concept of regional economic planning is encountered from 1950-1960, when various forms of territorial planning were promoted – regional *physical plan* in UK, *raumnordnung* in Germany, *amenajament du territoire* in France – we can speak about "*the new era in drawing up plans and regional development strategies*" (Bachtler & Yuill, 2001) since 1988, which is the moment when structural funds were reformed.

By adopting the French model of concluding contracts/plans between the state and the region – *contracts du plans* – the European Commission requested member states to carry out regional development national plans designed to reflect the development strategy of the regions, in order to access the EU financial resources for regional development (Marchis, 2008). Those programs became more and more complex, being at present programming instruments of the regional policy.

As regards the regional incentives, they are seen as financial assistance given by the state in order to encourage the companies to locate themselves or to invest within "problem regions". The incentives take the form of investment subsidies, loans awarded in favorable conditions, fiscal concessions, subsidies awarded to labor factor or transport, etc. Although, in the last 40 years, the regional incentives occupied a top position within instruments of regional policy, they have suffered various transformations in time, becoming more selected and concentrated.

Moreover, the amount of expenditures allocated to regional incentives have been reduced very much in most member states, due to on one hand the growth of budget constraints and the negative perception on awarding direct support to the companies, and on the other hand the pressures from the European Commission regarding the removal of state aids.

Regarding the development of business environment, it implies assuring the necessary infrastructure (Onica, 2009) such as: physical infrastructure, ensuring information, technical assistance and consultancy, access to education and training, spreading of the innovation among traditional industries, sustaining the dialogue between university centers, research centers and business environment, etc.

The difficulty in using this instrument comes from the fact that it implies a high level of cooperation between all operators involved in regional development. In such circumstances, it appears more clearly the need of adequate regional development strategies to solve the problems identified at regional level. It should also be added the influence exerted by EU structural funds on transformations of national policies of member states and on promoting "*friendly competition among regions*" (Şerban, 2004) in the context of "*conflict between efficiency and equity*" (Constantin, 2004), now known as "*debate between competitiveness and cohesion*" (Batchler, 2003).

The EU regional policy "*is indissolubly linked to the horizontal dimension of cohesion policy",* being *"more, than anything else, a solidarity policy built around the social an economic cohesion objective*" (Constantin et al., 2007). The achievement of economic and social cohesion in an enlarged European Union is the main challenge in the present, in relation with the EU aim at becoming "*the most dynamic and competitive economy in the world*", according to Lisbon Strategy. By creating a regional policy that assists every region of a state and not only the "problem regions" will generate economic growth and competitiveness al national level, thus having direct effects on deepening the disparities among the regions belonging to the same state. This approach of regional development policy is increasingly present in EU member state. The Swedish regional policy aims to stimulate regional competitiveness, economic growth and employment in all its regions. In Finland, it is mainly focused on promoting regional competitiveness than to maintain a balanced territorial development. In the Netherlands, the regional policy is shifted from assisting the north part of the country to promoting areas characterized by a high level of competitiveness. In Austria, there were established regional instruments targeted to thematic objectives without territorial bordering. The same tendency is also seen in the United Kingdom where the focus is on economic development of all regions and the areas with economic growth are strengthened by stimulating regional innovation capacity, entrepreneurship and human factor skills.

It worth underlining that those redefinitions of regional development policies of member states lead to an endogenous approach of regional economic development, after the principle "*regional solutions to regional problems*" (Batchler, 2003).

The actual stage of research in the field of regional policy instruments shows that it is necessary to design a model of regional development. Previous studies that approached this issue have shown that the main objective of EU regional policy was to achieve inter-regional equity al national level by "*reducing disparities (...) related to incomes, welfare and economic growth of the regions*" (Constantin, 1998).

The term equity is used in the sense that the European citizen should not be disadvantaged, regardless the place he/she lives in the EU. (Adaptation after Bachtler & Yuill, 2001, p. 12)

Table 1. The instruments of regional development policy

Criteria	**Classic regional policy**	**Contemporary regional policy**
Basic concepts	<u>Theories on location</u> The key factors are the *characteristics* of the regions (e.g.: production costs, availability of labor, etc.)	<u>Knowledge-based theories</u> The key factors are the *potential* of the regions (e.g. innovation capacity, the ability to form clusters, dissemination networks, new technologies, etc.)
The characteristics of regional policy		
Goal	Equity *or* efficiency	Equity *and* efficiency
Objective	New jobs creation Investments growth	Competitiveness growth (e.g. to encourage the entrepreneurs to develop new business, innovation promotion, to stimulate human factor skills).
Influence area	Restraint (economic/industrial sector)	Extended (multi-sectorial)
Put in practice	Slowly, based on projects	Active, planned, strategic
The structure of regional policy		
Territorial Concentration	Problem-regions	All regions
Analytic basis	Statistic Indicators Regional exports	SWOT Analysis
Key instrument	Financial facilities	Programmes for development
Assistance for:	Companies „hard” infrastructure	Business environment „soft” infrastructure
The organization of regional policy		
Application	From top to bottom - centralized	Collective – based on negotiations
Management	Central administration	Regional authorities
Partners	-	Local authorities, sectors involved, civil society
Operate	Simple – in reasonable terms	Complex, bureaucracy
Project selection	Internal	Participative
Execution term	Carrying out/Finalized	Multi-annual planning
Phases	Ex-post	Ex-ante/intermediary/ex-post
Outputs	Measurable	Difficult to measure

The regional development policy is financed from the EU budget, therefore I shall make an analysis between two financial perspectives, namely the current and the next one.

2. Comparison of EU Budget: The New Financial Framework 2014-2020 vs. the Financial Framework 2007-2013

The New Financial Framework is applicable for a period of 7 years, between 2014 and 2020, and it is the correspondent of the Financial Framework for 2007-2013. It was elaborated for the an enlarged European Union containing 28 member states, taking into consideration Croatia which is supposed to adhere in July 2013.

The deal reached at the European Council limits the maximum possible expenditure of EUR 959.99 billion (in 2011 prices) in commitments, corresponding to 1.0% of the EU's Gross National Income (GNI). This means that the overall expenditure ceiling has been reduced by 3.4% in real terms, compared to the current financial framework (2007-2013). This is the first time that the overall expenditure limit of a financial framework has been reduced compared to the previous one. The ceiling for overall payments has been set at EUR 908.40 billion, compared to EUR 942.78 billion in the 2007-2013.

For the next period, the Commission proposed to bring under a common strategic framework, the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund, together with the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund.

A new element was adopted in the financial framework 2014 – 2020 compared to the current one, namely the extinction of the following instruments outside the agreed financial allocations: the European Development Fund which will finance the development assistance of African, Caribbean and Pacific Group of States (EUR 26,98 billion), for the period 2014-2020; other flexibility instruments which will be mobilized, only in case of emergency, and will enter into the annual EU budget, as follows: Emergency Aid Reserve (it is used to finance the operations of protection and manage the civil and humanitarian crisis, under unforeseen circumstances), European Globalization Adjustment Fund (meant to sustain the redundant workers as consequence of major structural changes of world wide commerce), Solidarity Fund (assures the financial assistance in case of a major disaster in state/candidate country) and Flexibility Instrument (it is mobilized for clearly identified needs that cannot be financed under the multi-annual financial framework).

The New Financial Framework 2014-2020 is structured into five chapters, as follows:

- **Smart and inclusive growth (EUR 450,763 billion)**: composed of Competitiveness for growth and job creation (EUR 125,61 billion) and Economic, Social an Territorial Cohesion (EUR 325,15 billion). The EU leaders agreed on a sustainable growth of the means oriented towards future, as regards research, innovation, education, promotion of economic growth and job creation. For 2014-

2020, the amount was increased by 37% compared to the current allocations. In order to reduce the development disparities between EU regions, it was settled that the poor member states will receive a bigger share from the cohesion policy allocation package compared to the current 2007-2014.

- **Sustainable growth: Natural resources (EUR 373,18 billion).** The Council agreed on some orientation elements for the reform of the Common Agriculture Policy, towards a more ecological agriculture. The subsidies will be distributed more equitable between member states.

- **Global Europe:** The Council decided to extend the role of EU as important actor.

- **Administration:** The EU personnel will be diminished with 5% and their working time will be increased with 2,5 hours/week. The salaries and pensions of EU personnel will be frozen for a two year period and the solidarity tax will be increased from 5,5% to 6%. (ec.europa.eu/budget).

- **Security and citizenship:** the measures include actions regarding asylum, migration, initiatives in the fields of external borders and internal security.

A new budgetary limit was introduced, namely **Compensation** with a view to avoid Croatia to became a net contributor to the EU budget for the first years after its EU integration.

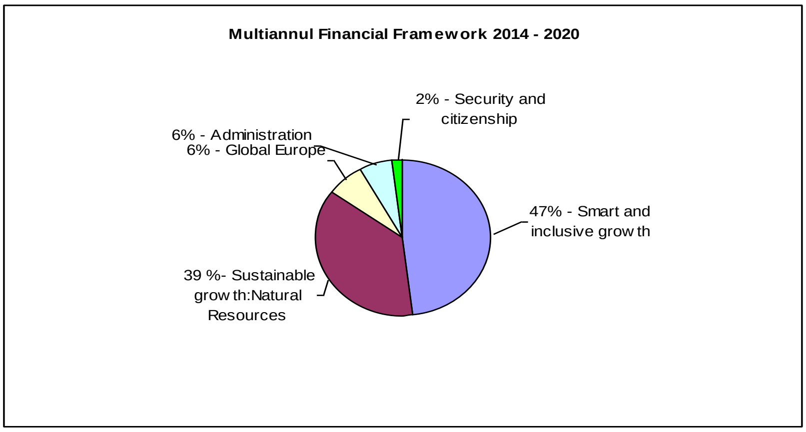

Figure 1. The New Financial Framework

A comparison (in 2011 prices) between The New Financial Framework 2014-2020 vs. the Financial Framework 2007-2013, is presented below: (http://www.consilium.europa.eu/special-reports/mff/summary-of-the-european-ouncil-agreement?lang=ro)

Table 2. A comparison (in 2011 prices) between The New Financial Framework 2014-2020 vs. the Financial Framework 2007-2013

Commitment appropriations	New Financial Framework **2014-2020**	Financial framework **2007-2013**	Comparison	
	billion Euro	billion Euro	Billion Euro	%
1. Smart and inclusive growth	450,763	446,310	+4,45	+1%
1.a Competitiveness for growth and job creation	125,614	91,495	+34,12	+37,3%
1.b Economic, Social an Territorial Cohesion	325,149	354,815	-29,67	-8,4%
2. Sustainable growth: Natural resources	373,179	420,682	-47,5	-11,3%
3. Security and citizenship	15,686	12,366	+3,32	+26,8%
4. Global Europe	58,704	56,815	+1,89	+3,3%
5. Administration	61,629	57,082	+4,55	+8%
6. Compensations	27	na	na	na
Total Commitment appropriations	**959,988**	**994,176**	**-35,19**	**-3,5%**
% of GNI	1%	1,12%		
Total payment appropriations	908,400	942,778	-34,38	-3,5%
% of GNI	0,95%	1,06%		
Emergency Aid Reserve	1,96	1,7	+0,3	15,5%
European Globalization Adjustment Fund	1,05	3,5	-2,5	-70,6%
Solidarity Fund	3,5	7,14	-3,6	-51%
Flexibility Instrument	3,3	1,42	+1,9	+130,9%
European Development Fund	26,984	26,82	+0,2	+0,6%
Total, outside financial framework	**36,794**	**40,67**	**-3,9**	**-9,5%**
Total EU Budget	**996,782**	**1034,85**	**-38**	**-3,7**
% of GNI	1.04%			

As regards Cohesion policy, Romania has allocated, for the New Financial Framework 2014-2020, EUR 21,825 billion, amount which will be indexed by inflation over the 7 year period.

Due to the fact that Romania concluded a financing agreement with the European Union, International Monetary Fund, it will benefit of a pre-financing of 4% from this amount. Also, the 85% co-financing rate for projects financed by structural funds may reach 95%.

The provisions of the New Financial Framework 2014-2020, related to the financial allocations for Romania, may enter into force after its approval by the European Parliament.

3. Conclusion

To summarize, the study presents the actual stage of research in the field of regional policy instruments, altogether with a brief analysis on the financial allocations from the EU budget in the current period and the next one.

Due to financial crisis and the budgetary constraints, the Commission tries to extent the current financing instruments, such as the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Agricultural Fund for Rural Development, by adding other flexibility instruments, which are outside the agreed financial allocations. Those new instruments can be mobilized by member states, in case of emergency.

The topic of this study is, as follows: to understand the side effects of the European integration; to identify the types of regions at the EU level and the typology of the regional instruments, as result of deepening of the inequalities in relation to economic development of the member states; to analyze the afore-mentioned typologies in different member states; to examine the instruments of regional development policy (classic and contemporary); to pinpoint the differences between the financial framework 2007-2013 and the new financial framework 2014-2020.

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