

## LANDMARKS OF REGIONAL DEVELOPMENT IN THE E.U.

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### Abstract:

*Regional development policy strengthens the role and responsibilities of local public administration and of regional organisms in the economical and social development of localities and developing regions, at the same time, diminishing the implication of governmental institutions in these matters. We have in view the diminishing of present regional imbalance, emphasizing the stimulation of balanced development and the revitalization of disadvantaged areas (with delayed development). The main idea is that the minimization of disparities can occur only through the regions' gaining of competitive capacity. Furthermore, we will succinctly present the manner of creating the medium size regions (NUTS 2) in the E.U., which can or cannot have an administrative role and differ in size. Their main part is that of running regional politics. The Structural Funds aim at accomplishing certain objectives, among which the convergent objective has a considerable share regarding financial allotments. The role of the member states is that of creating Operational Programs for accessing funds, which are to be adopted by the European Commission, and once adopted, they are to be implemented.*

**Keywords:** regions, regional development, Structural Funds, convergence, competitiveness, cooperation.

**JEL Classification:** R58

## 1. INTRODUCTION

The creation of medium size territorial units in the European Union (named regions) has followed the efficient absorption of community funds for regional development and the possibility of interpreting and researching the regional statistics. On the other hand, the present tendency in the E.U. is that of decentralizing the decisions.

With the diminishing involvement of governmental institutions, **the regional development policy** strengthens the role and responsibilities of local public administration and of regional organisms in the economic and social development of localities and development regions. This policy is an important component of local autonomy, being oriented towards the diminishing of existing regional disequilibrium, laying emphasis on the stimulation of balanced development and on revitalization of disadvantaged areas (with delayed development). If, in the beginning, this policy considered that the balancing of the development can be produced through territorial distribution of economic growth, presently, it is considered that the minimization of disparities can be obtained only by acquiring a competitive capacity by these regions.

The regional development policy is one of the most important and complex policies of the European Union, a status arising from that, through its objective of reducing the existing economic and social disparities among the various regions of Europe, it acts on some significant areas for development, like the economic growth and the SMEs sector, transport, agriculture, urban development, environmental protection, employment and educational training, education, equal chances etc.

One of the short comings to which the regional policy of the E.U. could constitute a solution, is that of an unique market in which the protectionist barriers are missing, which could deepen the regional disparities, thus endangering the political, social and economic stability.

The measures brought by the above mentioned politics have the purpose of strengthening the competitive capacity of poorer regions.

The existence of some *large differences* among the U.E. regions regarding income and development has lead to the creation of regional policy, by which resources from rich areas are

In addition, this policy is also an instrument of financial solidarity and an important cohesion force of economic integration. Solidarity presumes bringing benefits for the less wealthy regions and their inhabitants, and the cohesion is translated through the fact that all would have to gain from the reduction of regional gaps.

Considerable differences between the prosperity levels also exist among some U.E. es. The most prosperous regions from the point of view of GDP/inhabitant are the urban like London, Brussels and Hamburg), and the riches country, Luxembourg is over seven richer than Romania and Bulgaria, the poorest member states of the U.E.

The disparities among the regions can have different causes derived from the geographical distance, social and economic changes, or a combination between the two. Among the effects of underdevelopment we can enumerate the higher unemployment rate or the inadequate infrastructure, and part of this state of being is also the consequence of the former centralized and planned economy.

The relaunching of regional policy, manifested through certain economic development policies at a regional level which are to consider all the regions of a state (not only those left behind), will generate economic growth and competitiveness at a national level, and only partially at regional level, with enhancing the disparities among the regions of the respective state. This kind of approach to development regional policy is more and more present within the E.U. member states.

The regional development policy at the level of the European Union does not reduce the role of regional policy of each member state, it has a complementary character to the policy of every state and functions on the principle of the partnership between the European Union and each member state, between member states, as well as between local authorities and the different active organizations at regional level and those existing at national level.

### 3. THE REGIONS IN THE E.U.

- NUTS-1: between 3 and 7 million inhabitants;

- The delimitation of regions according to NUTS is made after the administrative criterion, which means that certain geographical areas with administrative authority of taking political or administrative decisions. If in a state there are no administrative units of proper size for NUTS, then the NUTS regions will be created by joining a number of smaller existing administrative units. Along with the administrative criterion, it is used, as previously seen, the one referring to the number of inhabitants. As a matter of fact, it can be observed that many of the regions are non-administrative. Up to a certain extent, this fact restricts their participation as legitimate entities from a legal and institutional point of view to the process of making decisions; there is the danger that certain regions remain just simple instruments of national governments or of European institutions. The criterion regarding the number of inhabitants is just orientative; there are some NUTS 2 regions with a population of 500.000 inhabitants (Cornwall in the U.K.) and other with almost 10 million inhabitants (Lombardy in Italy). Thus, what is considered important is the correspondence between the effective population and the optimal necessary of economical resources.

From the point of view of the geographical characteristics, the level of economic development, the intensity of the social problems, the member states of the European Union manifest a wide range of preoccupations regarding the establishment the type of regional inequalities which the afferent policy approaches. In this context, conceptualizing regional problems varies from one country to the other, but, in fact, *three types of disparities* are considered: physical- geographical, economic and social.

1. *The indicators of physical-geographical disparities* primarily concentrate on the disadvantages determined by the physical environment: peripherality, the distance from the markets, the climate and the effects of physical disparities on the population density and on the migrating patterns.

2. *The indicators of economic disparities* refer most frequently to the GDP/inhabitant, to the structure of economic activities, infrastructure, economic perspectives. The most important indicator of regional disparities remains *the GDP/inhabitant*, considered by the European Commission as the key-criterion for determining the existence and amplitude of regional disparities.

3. *The indicators of social disparities* primarily reflect the considerable importance which is laid upon the level and occupational structure, as well as that of unemployment in the context of regional policies. Although, the level of unemployment is strongly tied to the economic welfare of a region, unemployment is also used as an independent indicator of estimating social disparities, considering its impact on the individual and on society.

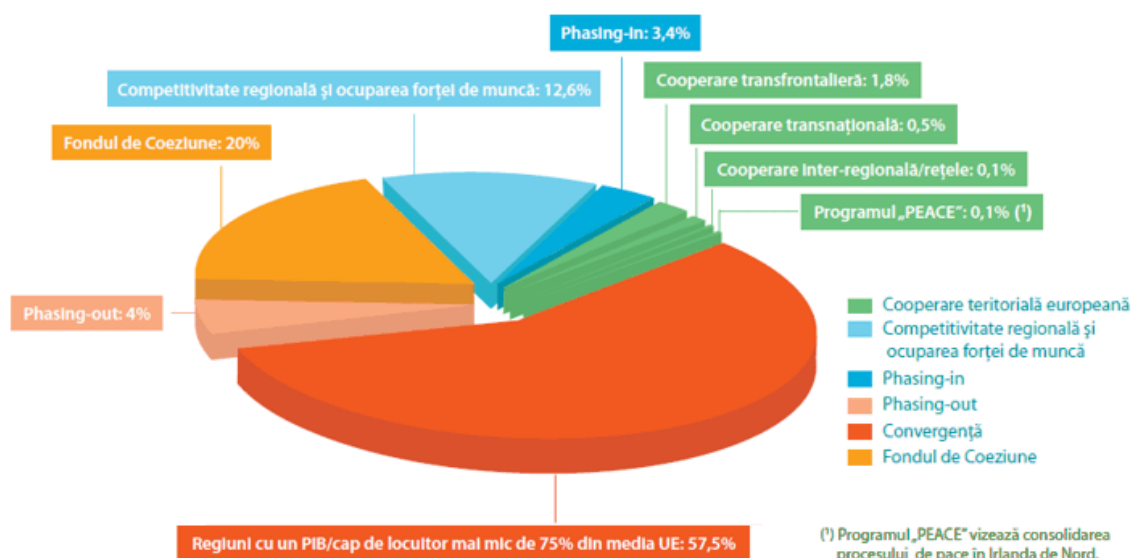
It can be said that the regional development policy is one of the essential elements of the E.U. because of the role it has in assuring the general development and in realizing the economic and social cohesion. It seeks the strengthening and consolidation of the cohesion at the level of each country, as well as at the level of the whole European Union, using for the latter conjugated financial contributions, on behalf of the states and of the Union.

#### 4. THE THREE OBJECTIVES OF THE REGIONAL POLICIES

The year 2000 brings forth the unification of geographical areas and the periods of investment programming through Structural Funding and national policies. The classification of regions which can be eligible for accessing these funds and the allotted quantum it is made on the basis of national indicators: the level of GDP/inhabitant and the level of unemployment, both reported to the E.U. average. Starting with 1994, a new introductory objective of the Structural Funding has been introduced, which permitted the eligibility of regions with a density lower than 12,5 inhabitants/km<sup>2</sup>, a necessary decision, because of the adhesion of Sweden and Finland.

In the context of the expansion of the E.U. and of the increasing importance of regional policy during the period of 2007 – 2013, *the regional expenses* will have a share of 35,7% in the

E.U. budget, that means an allotment of funds of 347,41 billion Euros. This effort concentrates on three objectives (2): convergence (81,54%), regional competition and occupation of labor market (15,95%), as well as European territorial cooperation (2,52%); which are grouped in what is called the cohesion policy.



**Figure 1. The Distribution of the budget of the Structural Funds according to objectives**

Source: <http://eufinantare.info/politica-coeziune.html>

The convergence objective aims at stimulating the conditions which favors the growth and the factors which lead to the real convergence for the Member States and the less developed regions. *The regional competition and the occupation of the labor market* can be attained through a double approach: on the one hand, through the development regions which will help the regions to anticipate and promote economic change, and on the other hand by creating more jobs, which will be sustained by adapting the labor force and by investing in human resources. *The European Territorial Cooperation* will consolidate the cross-border one (through local and regional mutual initiatives), the cross-national one (laying emphasis on the integrated territorial development), as well as inter-regional cooperation (through experience exchange).

The recipients of these funds are especially the central and est.-European countries, plus the regions from other E.U. states which have special needs. 51% of the total regional expenses between 2007 and 2013 will be destined for the 12 countries which have adhered starting with 2004, even if they represent less than a quarter of the total E.U. population. The money comes from three different sources, according to the nature of the assistance and the type of beneficiary: The European Fund for Regional Development (EFRD), the European Social Fund (ESF), the Cohesion Fund; these financial resources cover the three above mentioned objectives as we can observe in the following figure.

| Objectives  | Structural Funds |     |                   |
|---|------------------|-----|-------------------|
|   | EFRD             | ESF | The Cohesion Fund |
| Convergence   | EFRD             | ESF | The Cohesion Fund |
| Regional competition and occupation of the labor market | EFRD             | ESF |                   |
| European Territorial Cooperation                        | EFRD             |     |                   |

**Figure 2. Objectives and structural funds**

Source: [http://ec.europa.eu/regional\\_policy/policy/object/index\\_en.htm](http://ec.europa.eu/regional_policy/policy/object/index_en.htm)

The whole E.U. is under the incidence of one or more objectives of the Cohesion Policy. The NUTS 2 regions whose GDP is lower than 75% from the community average, are eligible for financing within the frame of the convergence objective. All the regions which are not under the incidence of this objective or of the transitional assistance are eligible for financing within the objective of *regional competition and occupation of labor force*. The objective *European territorial cooperation* comprises: cross border cooperation (for the NUTS 3 regions along the internal borders and some external ones too, as well as those with maritime borders separated by a distance of maximum 150 km), cross national cooperation and interregional cooperation (for all E.U. regions).

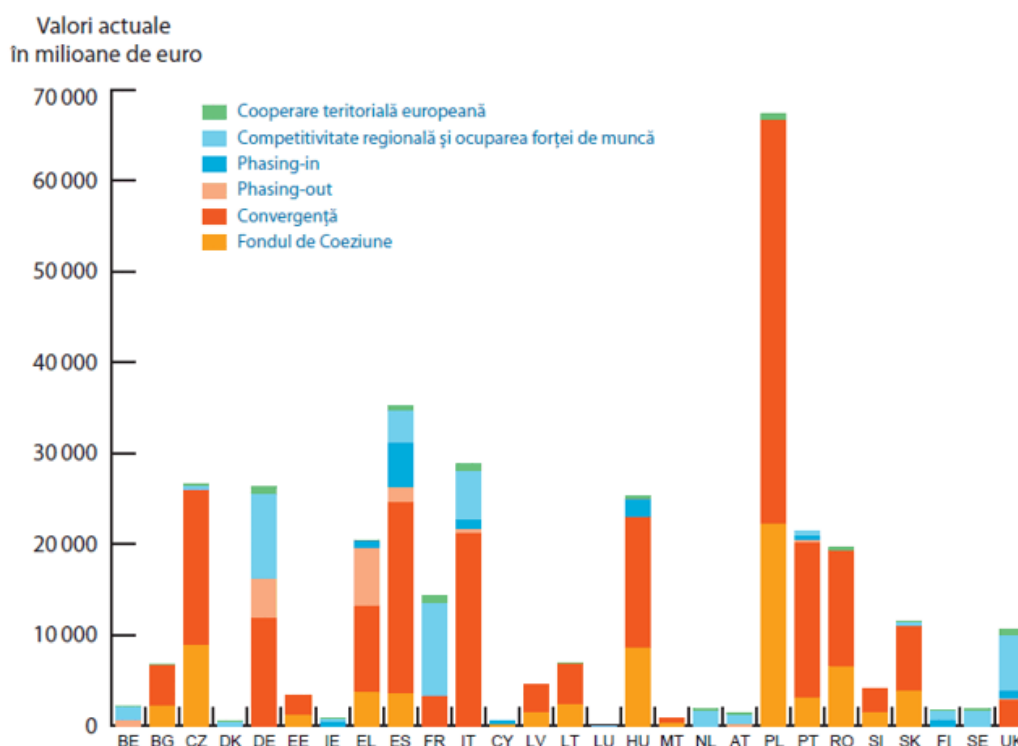
The present rules presume that the funds must be spent in accordance with the priorities of the European Union regarding the promotion of competition and the creation of work places (the Lisbon Strategy). The Commission and the member states supervise that 60% of the expenses for the Convergence of all member states and 75% of the expenses for Competition and occupying the labor force take into consideration these priorities.

The plafonds for the co-financing rates for each objective are as follows (3):

- Convergence: between 75% and 85%;
- Competition and occupation of the labor force: between 50% and 85%;
- European Territorial Cooperation: between 75% and 85%;
- The Cohesion Fund: 85%.

The European Commission decides the annual sums allotted to each member state, according to certain criteria, among which the most important are: the eligible population, the national welfare, the regional welfare and the unemployment rate. At a national level, each country establishes how these sums will be shared among regions, and according to their eligibility.

In the following figure we find the allotment of funds, according to the objectives, for each Member State during 2007-2013.



**Figure 3. The distribution of funds according to states and objectives**

Sursa: <http://eufinantare.info/politica-coeziune.html>

## 5. STRUCTURAL AND COHESION FUNDS (STRUCTURAL INSTRUMENTS)

*Structural and Cohesion Funds (FSC), or the Structural Instruments*, are those modalities of financial aid through which the European Union takes action against eliminating the social and economic disparities between regions, with the aim of achieving social and economic cohesion. The latter occupy the second place as a share in the budget of the European Union, established for European politics and comprise: **The European Fund for Regional Development (EFRD), The European Social Fund (ESF) and the Cohesion Fund.**

In reality, the European Union has the power of an internal market with 27 member states with 493 million citizens, summing up 27 regions, but not all Europeans have the same advantages and chances to succeed in socio-economic terms. The difference is rendered by the area they inhabit – if it is a prosperous or a poor region, an expansion or a declining area, an urban or rural area, at the periphery of the E.U. or in one of its economic centers. There are significant disparities between the E.U. member states and its regions. The first 10, the most dynamic regions of E.U., have a Gross National Product (GNP) of over 5 times bigger than the last 10, the ones left behind in the E.U. One region out of four has a GDP/inhabitant under 75% of the 27 E.U. average.

In this context, the regional development policy is one of the most important and complex of the European Union, a status derived from the fact that, through his objective of reducing the existing social and economic disparities between the various regions of Europe, operates on significant domains for development. **The European Fund of Regional Development (EFRD)** supports financially the durable economic development at local and regional level and the diversification of economic structures in various fields as:

- Technological research and development, innovation and entrepreneurship;
- The development of electronic communication infrastructure;
- The environment, including investments linked to the supplying of water and the management of waste, treatment of residual water, the quality of air, problems regarding draught and pollution;
- The prevention of natural and technological risks;
- Tourist activities;
- Investment in culture, including the protection, the promotion and the preserving of cultural legacy.
- Transportation investments;
- Energy investments;
- Investments in education, including vocational training;
- Investments in the social and health care infrastructure;

FERD has its focus on two objectives:

- The promotion of development and of structural adjusting of regions with difficulties (as a rule, those which have the GDP/inhabitant inferior to the level of 75% of the community average).
- The favoring of the economic and social conversion of the areas with structural difficulties. They comprise areas which find themselves in economic and social change phases in the industrial and services sectors, the declining rural areas, urban areas facing difficulties and the areas dependent on fishing which find themselves in a crisis situation.

The main **objective** of the European Fund of Regional Development is to consolidate the economic and social cohesion in the European Union by diminishing regional imbalances.

EFRD can intervene in three new objectives of regional policy:

- convergence;
- regional competition and employment;
- European territorial cooperation.

ESF supports the actions of the states in the following fields (4):

- The adaptation of workers and enterprises, life long educational systems, the developing and dissemination of certain innovative manners of organizing labor;
- Improving the access to obtaining a working place for those interested in doing so, of inactive persons, of women and immigrants;
- Social integration of disadvantaged persons and the fighting against all forms of discrimination on the labor market;
- The consolidation of human capital by applying certain reforms of the educational system and by the networking activities of the educational institutions.

The Cohesion Fund is destined for the Member States which have a gross national product (GNP) per inhabitant of less than 90% of the community average, with the scope of reducing differences between levels of economic and social development, as well as for stabilization of economies, measures under the Convergence objective.

For the period 2007-2013, this fund has as destination, the following countries: Bulgaria, Cyprus, Estonia, Greece, Latvia, Lithuania, Malta, Poland, Portugal, the Czech Republic, Romania, Slovakia, Slovenia and Hungary. Also, Spain is eligible, but only on transitory basis, its GNP/inhabitant being inferior to the average of the European Union with 15 member states.

Complementary to the actions supported with Structural Funds, there are **European funds complementary to Structural and Cohesion Funds** which support investments in the field of rural and fishing development:

- **The Agricultural European Fund for Rural Development (AEFRD)**, which finances investments for the increase of competition in agriculture and forestry, the protection of the environment, the improvement of life and the diversification of economic activities in the rural areas;
- **The European Fund for Fishing (EFF)**, which supports durable development of the fishing sector and of costal areas, where this sector predominates.

The Structural Instruments of the European Union help stimulate the economic growth of the member states and lead to the reduction of disparities between regions. Yet, they do not function on their own; the insurance of a contribution on behalf of the involved member states is needed (mainly from public resources, but also private contributions, the latter being encouraged in most of the cases).

The majority of the regional expenses, supported through the three Structural Funds, are destined to regions with a GDP of under 75% of the Union's average and their aim is to improve their infrastructures and the development of the economic and human potential. These have as target 17 of the 27 member states of the E.U. On the other hand, all 27 countries are eligible for financing for the support of innovation and research, durable development and job training in the regions left behind. A small part of this budget is meant for cross-border inter-regional cooperation projects.

It is desired that regional policy promote economic growth and job creation through (5):



Structural Funds and the rules for their usage are decided by the European Council and by the European Parliament on the basis of a proposition from the European Commission. Each member state prepares a National Strategic Frame of Reference in accordance with the Strategic Norms. This document which will be given to the Commission for evaluation defines the chosen strategy by the respective state and proposes a list of operational programs which it desires to implement. The Commission will validate parts of the document, as well as several operational programs (OP). The countries and regions under the incidence of the convergence objective are forced to allocate 60% of expenses for priorities which come from the E.U. strategy for development and work places (the Lisbon Strategy). For the countries and regions under the *competition and employment objective*, the percentage is of 75%. During 2007-2013, approximately 450 OP will be accepted by the European Commission. Once the OP are approved, the Member States and their regions have the responsibility of implementing the programs, by selecting, monitoring and evaluating the projects. It is here that the management authorities from each country intervene. The Commission engages in the expenses, and will pay only the eligible ones, by monitoring each OP.

## 6. CONCLUSIONS

As the years pass by, the regional development policy has gained great importance in the E.U. Along with the diminishing of existent regional unbalances and the revitalization of underprivileged areas, it is also taken into account the gaining of a competitive capacity by the regions. This growing importance is also reflected by the growth of the quantum for the afferent expenses, during 2007-2013, this having a share of over a third of the U.E. budget. The main objectives of the Structural Funds are: the convergence objective having a considerable share regarding the financial allotment. The criteria for eligibility are very strict, and on their basis funds are allocated. The member states have the role of creating Operational Programs for accessing the funds and implementing them once these have been approved by the European Commission, and simultaneously insuring the necessary co-financing. The lessening of major differences regarding the development of the different E.U. regions, insured by the implementation of these policies, represents the key to a harmonious and durable development of the E.U.

## ENDNOTES:

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- (2) [http://ec.europa.eu/regional\\_policy/policy/fonds/index\\_en.htm](http://ec.europa.eu/regional_policy/policy/fonds/index_en.htm)
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