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BRIEFING NOTE ON INTRA-EUROPEAN REGIONAL POLICY MECHANISMS IN THE CONTEXT OF THE DEBATE ON DEVELOPMENT POLICIES[1]

INTRODUCTION:

The EU Regional Policy aims at "leveling the playing field" within the integration scheme. The goals of this policy encompass a wide range of economic, social, environmental and competitiveness concerns, such as: structural economic imbalances among regions within the EU; physical infrastructure weaknesses; development of technology and research capacity, supply capacity and diversification, support to SMEs, environmental goals; social support to vulnerable economic sectors or geographical areas; support to adjustment processes; human resources development; support to employment policies. In other terms, the EU Regional Policy matches all the long-term goals of the development strategies of any developing country or LDC.

The various instruments that ensure the implementation of this policy include, *inter alia*, financial and technical assistance, joint public/private investments, support to project design and implementation, cross-border cooperation. The financing is provided by the EU's budget, and shared with local resources in some components of the Regional Policy.

This note contains a brief overview of the EU's main regional policy mechanisms illustrating the wide scope of measures used and the objectives being targeted to support a balanced intra-EU development.

These sophisticated mechanisms have probably no equivalent in the rest of the world. Their specificity makes them inappropriate for a context different from the EU. However, some of the managerial principles and instruments provided to boost the development of vulnerable regions within the EU could be a source of inspiration for the economic relationship between the EU and developing countries.

■ Historical background

The idea of a structured European regional policy experienced significant changes since the launching of the European Economic Community (EEC) in 1957. Indeed, the Treaty of Rome did not included provisions on a detailed regional policy, but only some solidarity mechanisms based on two structural funds: the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF).

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The regional policy was only set up after the first enlargement of the Community in 1973, with the creation of the European Regional Development Fund (ERDF) in 1975. However, its financial resources were modest, therefore limiting its impact.

The Single European Act in 1986 was the first Treaty describing the social and economic cohesion as a Community's competence, fixing the objectives and the resources available. The trend was amplified by the Maastricht Treaty, which increased the budget of the structural funds, and integrated all the structural interventions within a global employment policy and a strategy for the development of the disadvantaged areas (article 158 of the European Treaty).

A new reform of structural funds was approved in March 1999 with the following objectives: targeted aid, decentralized system, greater evaluation and control. The budget allocated to the structural funds has reached 195 billion € for the 2000-2006 period.

I. THE GUIDING PRINCIPLES OF THE REGIONAL POLICY

Several principles govern the activities of the EU Structural Funds, some of them since the beginning of these operations (such as the "additionality" principle), while others are much more recent, but the majority of them has been confirmed and reinforced through all the reforms of the Structural Funds.

● **Principle of subsidiarity**

The subsidiarity principle is intended to ensure that decisions are taken as closely as possible to the citizen, and regular checking is made as to whether action at Community level is justified in light of the resources available at national, regional or local level. Specifically, it is the principle whereby the EU does not take action (except in the areas which fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level. It is closely bound up with the principles of proportionality and necessity, which require that any action by the Union should not go beyond what is necessary to achieve the objectives of the Treaty.

Therefore, the priorities are defined in collaboration with the European Commission, but the selection of measures and concrete projects are member states' responsibility. The national administrative levels manage, implement, control and evaluate the programmes.

● **The principle of additionality**

This principle has been developed since the beginning of the European Regional Policy. It stipulates that all projects submitted to the EU should be new projects and that national funding should be dominant. Therefore, the EU funds complement local, regional and national investments. The funding given by the Structural Funds is not identical for all projects, and varies depending on the region where it is developed and the "Objective" it is linked to.

● **Criteria to select the beneficiary territories and populations**

European funding obey to an *"objectives" typology* that determines the criteria defining which geographical entities or populations may apply to financial assistance.

In the first category we find the "territorial objectives":

- *Objective 1* refers to development and structural adjustment of the regions whose development is lagging behind and whose per capita GNP is less than 75% of the European Union average.

- *Objective 2* refers to the economic and social adjustment of areas that face structural difficulties (this covers areas with economic diversification problems, i.e. areas undergoing economic changes, rural areas in decline, areas dependent on fishing and urban areas in difficulty).

These two objectives account for more than 80% of the structural Funds.

There is also a "population related objective":

- *Objective 3* is the reference framework for all the measures taken under the new Title on Employment of the Amsterdam Treaty and the European Employment Strategy.

● **Public/private partnership**

Implementing the regional policy projects is the responsibility of national administrations. However, public/private partnership for the definition of the objectives and concrete follow-up is encouraged and even compulsory in some cases. Within the LEADER+ Community initiative, the public participation should represent no more than 50% of the total financing. For agricultural projects, the participation of Chambers of Commerce and Chambers of Agriculture is highly encouraged.

● **Decentralized management and separation of the functions**

Since the management of programmes is developed and monitored at national and local levels, the member state appoints a "management authority" which will select the projects, and a "payment authority" whose tasks will be to ensure that payments are issued in accordance with EU regulations, submit the demands for repayment and collect it. Both authorities can be part of the same administration, but the principle of separation should mean that they come from different services.

● **Spending repayments and control**

After adopting a programme, the EU authorises a payment through the "payment authority" to allow the effective launching of the project, but further disbursements by the payment authority are made *a posteriori*, against the real expenditures.

Furthermore, the increasing decentralized management of programmes is accompanied by tight control procedures such as mid-term evaluations and *ex post* evaluation carried out by an independent evaluator. These measures are the responsibility of Member States, while the EU's responsibility is to check the effectiveness of the control mechanisms.

A few programmes partly depart from the subsidiarity principle: Community initiatives and innovative action programmes (5,35% et 0,65%of Structural Funds engaged credits) are indeed impelled by the European Commission which decides on the priorities.

II. THE OPERATIONAL MECHANISMS OF THE REGIONAL POLICY

■ The financial instruments

● *The Structural Funds:*

1- The ERDF (European Regional Development Fund) : its scope is the widest as compared to other funds since it finances the above mentioned objectives 1 and 2 (i.e. helping regions whose development is lagging behind to catch up, and supporting economic and social adjustment in industrial, rural, urban or fisheries-dependent areas facing structural difficulties), as well as the Community initiatives INTERREG et URBAN (see below next section).

As part of its task to promote regional development, the ERDF contributes to the financing of the following measures:

1) Productive investments to create and preserve sustainable jobs;

2) Investment in infrastructure which contributes, in regions covered by Objective 1, to the development, structural adjustment and creation and maintenance of sustainable jobs, or, in all eligible regions, to the revitalisation of economic sites and industrial areas suffering from decline, depressed urban areas, and rural areas;

3) Development of the endogenous potentialities through measures which support local development and employment initiatives and the activities of small and medium-sized enterprises; such assistance is aimed at developing services to support enterprises, transferring technology, developing financing instruments, providing direct incentive to investment, providing local infrastructure and neighbourhood services.

2- The ESF (European Social Fund : was created in 1958 and it is the eldest Structural Fund. The ESF's aims at preventing and reducing unemployment and developing human resources for the labour market, so as to promote a high level of employment and economic and social cohesion. In particular, it is intended to assist the measures taken in line with the European strategy and guidelines on employment. It is applied to all the above mentioned Objectives and supports the EQUAL Community initiative (see below).

3- The EAGGF (European Agricultural Guidance and Guarantee Fund) is divided in two sections: the *Guarantee* (to sustain agricultural markets) and the *Guidance* (contributing to rural sector's development).

The Guarantee section has the purpose of funding expenditures resulting from application of the markets and price policy. Such expenditures consist partly of refunds for exports to third countries granted under the common organization of the market and partly of intervention payments to regularize agricultural markets.

The Guidance section finances all or some of the measures which are not strictly speaking linked to the management of agricultural markets, such as set-aside of land, income support, environmental protection, action to combat fraud etc. The Agenda 2000 decisions, transferring to the EAGGF Guarantee Section all structural and rural measures at present in force outside Objective 1 regions, are the latest development in this direction.

The EAGGF also finances the LEADER + projects (strategies for rural development) the FIFG (Financial Instrument for Fisheries Guidance), which is the last born of the Funds (created in 1993), aimed at supporting the adaptation of the fishery industry to the European fish policy through fleet renewal and modernization of fishing vessels; adjustment of fishing capacities etc.

● ***The Cohesion Fund:***

It was created in 1994 following the recommendations of the Maastricht Treaty. Its scope is mainly geographical since it covers the Members States whose GNP per capita is below 90% of the Community average (four countries at present) to provide assistance in the fields of the environment and transport infrastructure with a view of promoting economic and social cohesion and solidarity between Member States. Its financial contribution can amount to 85% of a project's public spending. The Cohesion Fund can also finance preparatory studies (above all cost/advantages evaluations) and technical assistance measures.

● ***The CIP (Community Initiatives Programmes) and "Innovative actions":***

The number of these initiatives –whose scope is directly defined by European institutions- was drastically reduced as compared to previous budgets and is now targeting four projects:

1)- EQUAL: promotes new ways of combating all forms of discrimination and inequalities in the labour market on the basis of transnational cooperation and aims at facilitating the social and occupational integration of asylum seekers.
2)- INTERREG III: seeks to reinforce cross-border, transnational and interregional cooperation through: **cross-border cooperation:** promoting integrated regional development between neighbouring border regions, including external borders and certain maritime borders; **transnational cooperation:** contributing to harmonious territorial integration across the Community; and **inter-regional cooperation:** improving regional development and cohesion policies through transnational/interregional cooperation
3)- LEADER+: promotes innovative strategies for sustainable development
4)- URBAN: lays down Commission guidelines on the economic and social regeneration of cities and neighbourhoods in crisis in order to promote sustainable urban development

Finally, the "Innovative Actions" support the latest ideas which have not yet been adequately exploited. They are expected to provide the regions with the opportunity to experiment new initiatives in order to meet the challenges of the information society and to make their economies more competitive. It finances the drawing-up of new strategies and the experimental phase of projects. If the initial stage proves satisfactory, projects may then be included in the strategies under the different Objectives.

■ The sequential steps of a project

● *Identification of needs*

For each Objective or region involved, the government of the Member State (with the help of its local authorities) identifies the priorities for development in the next budget and sends a development plan to the Commission who will examine its relevancy in relation with the Structural Funds goals. Once the agreement is obtained, the member states draw up a Single Programming Document (SPD) which sums up all their proposals. The Commission negotiates the terms of reference indicating for each project what would be its financial participation.

● *Project selection*

Once the Commission has adopted the Single Programming Document, the management authority (appointed by the Member State) elaborates a Programming Complement that goes into concrete details and lists all the potential beneficiaries of the funds. This document goes to the Commission for information purpose only. The information is then sent to the firms that are potentially interested in the project, and after a call for proposal, the selection of projects is made.

● *The payment*

The financing is made on the basis of a "financial contract" between the Commission and Member States. The payments are not made directly by the Commission but through the "payment authority" appointed by the national state. Once a programme is adopted, a deposit is given by the Commission to the "payment authority", which corresponds to 7% of the total participation. This advance allows the project to be launched (however, a repayment should be made if the project has not started after 18 months). Then, the payments are made by the Commission three times per year on the basis of a "repayment of effective spending".

In addition, the financing rate is not identical for all projects: the financing rate of the projects referring to Objective 1 is a maximum of 75% of the total cost (80 to 85% in regions eligible for the Cohesion Fund), while the rate of financing for the projects corresponding to objectives 2 et 3 is less than 50% of the total cost.

● *Project control*

In parallel to the "management authority", Member States set up a "follow-up committee" for every programme, whose mission is to ensure the quality and the effectiveness of the operation. In addition, the management authority must prepare every year an annual report on the programme's execution (including the financial execution).

Similarly, evaluations are carried out by an independent evaluator, at several stages of the process (above all mid-term and when the project is finalized) to ensure that the implementation is proceeding according to planning. At the end of the process, an *ex post* evaluation takes place under European Commission's responsibility. In concrete terms, 5% of a programme spending must be submitted to detailed audits either external or internal.

Finally, *the European Investment Bank (EIB)* provides loans to private companies and local communities at preferential rates, and *the European Investment Fund (EIF)* provides insurance risks to the loans and supports the venture capital activities.

CONCLUDING REMARKS:

This overview of the European regional policy mechanisms shows a peculiar, resourceful and sophisticated financial scheme that cannot be easily applied to other integration schemes.

However, some of the principles and mechanisms could inspire, for instance, the EU/ACP countries co-operation. Subsidiarity (whereas developing countries would define the projects to carry out) and additionality (whereas developing countries would partly finance the projects) are intellectually attractive but in most cases, they would come closer to wishful thinking than to feasible implementation. On the other hand, the distribution of projects between territorial objectives and human objectives is an interesting idea: the support to a balanced development is organised on the basis of an "integrated approach", combining human capital investments and physical capital investments, and in parallel to the macroeconomic policies. This approach is also used in the agricultural field, following the example of the EAGGF distinguishing the "guarantee" facet from the "guidance" activities. The objective is to incorporate aid to development and competitiveness into a global strategy, targeting the financial help towards a few projects instead of an inefficient "powdering" of resources.

The public/private partnership is an inspiring approach, together with the distinction between management, payment and control authorities. The ERDF, as a fund which finances infrastructure projects, could be used as a model, and Community initiatives/innovative actions could also inspire EU co-operation with developing countries: cross-border co-operation could follow the example of the INTERREG initiative. As regard the role of cities as regional development movers, and the coherence with the rural zone, the example could be the URBAN and LEADER+ initiatives.

Finally, it could be useful to study more in details the activities of the EIB and EIF who support micro-credit and risk financing in light of the relevance of these financial tools for developing countries.

REFERENCES:

As the original version of this paper was written in French, most of the references are in this language but the English version is always available when the information comes from an official EU source (either written document or website).

Most of the information came from the website of the European Union (http://europa.eu.int/) and its related links.

Official documents:
- Inforegio. Union Européenne politique régionale. Fiche d'information, *Bien gérer les fonds structurels: un enjeu pour le développement de l'Union*, janvier 2001
- C. Burger, *Regional development policy in the EU: Rules and instruments*, UNCTAD, February 2003
- British government, *Community Support Framework for Northern Ireland 2000-2006*, 2000
- Official Journal of the European Communities, *Information communicated by Member states regarding aid granted under Commission Regulation*, 12 January 2001

Official websites:
Above all: http://europa.eu.int/comm/regional_policy/ with all its related links
- www.rpfrance.org/cec/fiches/fsfc.htm
- www.info-europe.fr/Europe.web/document.dir/fich.dir/
- www.europarl.eu.int/factsheets/
- http://europa.eu.int/comm/employment_social/esf2000/

For examples of regional implementation of the EU regional funds:
- www.nordpasdecalais.fr/Europe/pol/fonds.htm
- http://europa.eu.int/spain/publicaciones/ccaa/GALICIA/Galicia3.html