

*EU Regional Policy:*

## ***A model for developing countries?***

*Development assistance is contingent upon the efficiency and effectiveness of delivery mechanisms. EU regional policy offers an appealing paradigm of how to achieve tangible outcomes with sound financial management.*

EU regional policy is one of the most successful areas of EU intervention. In an ever more diverse union with 27 member states that comprise 268 regions, economic and social disparities would undermine the functioning of the internal market of 493 million citizens and the legitimacy of the integration process. EU regional policy gained momentum in the political agenda in the light of the first enlargement including the United Kingdom and Ireland, countries with severe problems of de-industrialisation due to the oil crisis in the seventies. From the creation of a European Regional Development Fund (ERDF) in 1975 until today, EU regional policy has gained considerable prominence, representing 43 percent of the current budget. However, the most interesting development was associated with the institutionalisation of significant innovations in the delivery system of structural interventions that has often served as a model of effective and efficient policy-making for international development organisations and private donors.

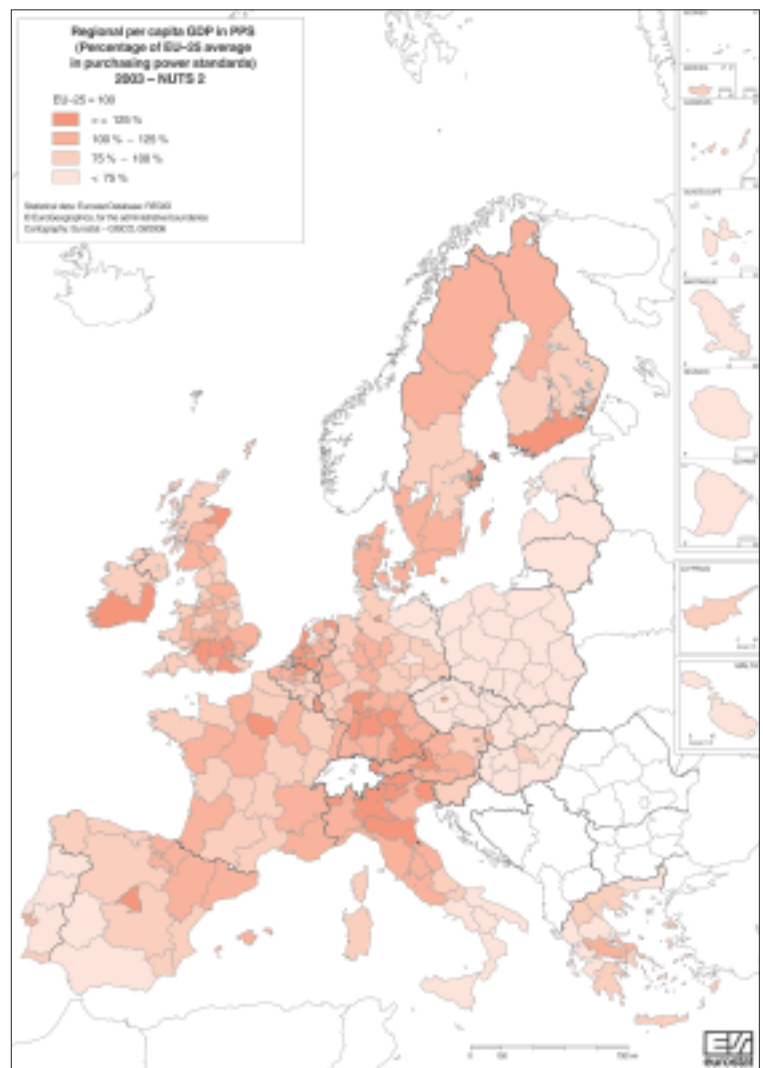
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### *A radical reform agenda*

The early regional development policy had an explicit re-distributional character. Available funds were contributing to development projects decided by national governments. Soon it was realised that this approach had serious shortcomings. A large number of individual projects were co-financed by the ERDF with no explicit long-term development priorities and multiplier effects. The necessity of a radical reform of the delivery system was crystallised after the southern enlargement of the EU with the inclusion of Greece (1981), Spain and Portugal (1986), all lagging below 50 percent of the then EU gross domestic product (GDP) average. Given the limited

size of the budget, the European Commission had to experiment with innovative approaches regarding both the policy content and the methods and requirements followed for their implementation in order to achieve better value for money. It was the first time that financial assistance departed from individual projects to comprehensive multi-annual regional development plans based on a qualitative and quantitative analysis of the regional economic and social characteristics and the identification of longterm competitive advantages and objectives. Successive EU Treaties have refined those objectives through the development of specific financial instruments and principles governing their implementation.



## Better value for money

One of the great challenges facing managers of international development funds is to prioritise their objectives so as to reduce overlapping activities and secure complementarity of their interventions. The EU has coped with this problem by channelling financial assistance to several issue-specific financial instruments on a one programme-one fund basis. Currently, there are three mainstream financial instruments pursuing a broad range of policy objectives directed towards the promotion of economic and social cohesion. These are:

- the ERDF that aims at reducing economic and social regional disparities;
- the *European Social Fund* (ESF) that promotes active employment policies and social inclusion;
- the *Cohesion Fund* that focuses on strengthening the capacities of the less advantaged regions to adjust their regulatory regimes to EU policies that impose high costs of adaptation.

These heterogeneous financial instruments are co-ordinated through a number of principles governing the selection of eligible areas and the process of policy formulation, implementation, monitoring and evaluation of policy interventions. These are:

**The principle of geographical concentration of structural assistance in priority areas.** Structural funds target geographical areas identified by a combination of economic and demographic criteria (GDP per head and population) in order to increase their effectiveness. Today, there are three priority areas, these being:

- the *convergence* of countries and regions that includes areas with GDP below 75 percent of the EU average;

- *regional competitiveness and employment*, which includes areas with low employment rates and
- *European territorial co-operation* that promotes cross-border, transnational and inter-regional synergies.

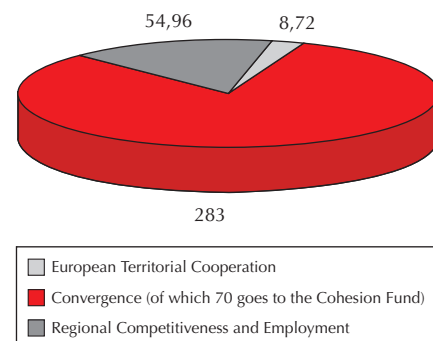
The figure demonstrates the breakdown of financial commitments to the three priority areas.

### The principle of programming.

This principle signifies the departure from the individual projects and requires the elaboration, at the EU, national and regional levels, of multi-annual development programmes that include a set of interconnected measures and actions addressing all facets of territorial development needs. In regional policies, multi-annual programming takes the form of EU-wide Community Strategic Guidelines on Cohesion that set the framework for the formulation of national, regional and sectoral programmes.

**The principle of partnership.** This principle is the most significant policy innovation endorsed in successive reforms of the structural funds' regulations. EU regulations define partnership as close co-operation and consultation between the EU Commission, the Member States concerned and the competent authorities designated by the latter at the national, regional, or local level. In practice, the partnership establishes an administrative process whereby the authorities involved, the social partners and non-state actors (business, NGOs and citizen groups) at all levels of government co-operate in order to formulate regional development plans, operationalise them and monitor their implementation. Since 1988, partnership has been viewed as a major procedural arrangement used by the European Commission to challenge the ways in which territorial development policies are formulated and implemented

## Cohesion Policy for 2007–2013, Total: around 347 billion euros (current prices)



Source: European Commission, *Regional Policy InfoREGIO*, [http://ec.europa.eu/regional\\_policy](http://ec.europa.eu/regional_policy)

at the domestic level. The principle opened unprecedented opportunities for a wide range of sub-national governmental and non-governmental actors to participate in the policy process.

### The principle of additionality.

Additionality represents an interesting experiment aiming at securing long-term financial sustainability of external development assistance. It sets up a co-financing framework between the European Commission and national funds, in order to prevent EU policies from becoming mere substitutes of national investment plans. In practice, additionality is a subject of intense negotiations between member states and the Commission at the ex ante, mid-term and ex-post evaluations of programmes. EU contribution cannot exceed 75 percent of investments, in convergence regions, with the remaining amounts being covered by national public investment programmes and/or private partners.

**The principle of efficiency and effectiveness**, which includes a wide range of practices related to monitoring, evaluations and financial controls of structural fund operations. Its main aim is to establish mechanisms that guarantee the efficient, effective and transparent use of structural funds

## Impact of EU regional policy on economic growth of a region

It is difficult to isolate structural funds impact on regional economic growth from general economic trends. Accounting for gross domestic product per capita in purchasing power standards (PPS) highlights that although from 1995 until today less favoured regions have experienced high growth rates, economic disparities with the most advanced regions have increased. Comparisons between London, one of the EU's most prosperous areas, and Attika, Greece's most prosperous region, where the capital Athens is situated, are revealing.

In 1995, inner London had 258 percent of the EU GDP average while Attika had 79.8 percent. From 1995 onwards, Athens benefited most from EU structural policies and experienced high levels of growth, reaching 112.7 percent of the EU's GDP average. However, London has reached an outstanding 302.9 percent. Disparities between the two regions have therefore increased from 178 percent in 1995 to 190 percent of the EU GDP average respectively.

Source: <http://epp.eurostat.ec.europa.eu/>

through periodic monitoring and evaluations and elaborated rules for payments. In order to achieve greater compatibility of regional policy with broad EU objectives of sustainable and competitive 'knowledge economy', also known as the Lisbon agenda, perioding reports assess compliance of plans and individual projects with EC legislation on public procurement, state aids, environment and equality of treatment. In cases where Member States fail to comply with the above criteria the Commission can initiate the process of temporary suspension of financial commitments.

### *The EU system: efficient and effective?*

During the last three decades, EU regional policy has been an area of intense experimentation with substantial novel procedural and policy approaches to development policies. The fundamental principles governing the implementation of the EU's structural assistance programmes, partnership, additionality, geographical concentration and programming challenge the ways in which territorial development policies are formulated and implemented and have shaped the ways other international organisations operate. They represent an alternative

policy paradigm that seeks to balance imperatives of efficiency and effectiveness and domestic endogenous actors' empowerment. Especially in countries with a statist tradition in developmental planning, these innovations have fostered significant transformations in domestic institutional and administrative structures and patterns of policy-making. They have provided unprecedented opportunities for a wide range of sub-national governmental and non-governmental actors to participate in the policy process.

However, evidence to date demonstrates that the high level of formalisation of policy requirements for managing structural assistance has reduced their potential to serve as a general model for developing countries. Member states with little experience on multi-level participatory planning have experienced serious problems with absorbing available funds. EU programming, monitoring and evaluation requirements are often too demanding for under-resourced national bureaucracies. This is particularly the case with small scale community-based innovative projects since local actors in poor regions often lack organisational and financial capacities to participate in the policy-making process. In effect, central government departments are reluctant to

## Zusammenfassung

Die Regionalpolitik der EU ist eines ihrer erfolgreichsten Tätigkeitsgebiete. In den letzten drei Jahrzehnten war sie ein Experimentierfeld für zahlreiche neue prozedurale und konzeptionelle entwicklungspolitische Ansätze, die die Gestaltung und Implementierung der territorialen Entwicklungspolitik von Grund auf verändert und auch die Arbeitsweise internationaler Organisationen und privater Geber beeinflusst haben. Der Artikel bietet einen Überblick über die wichtigsten Grundsätze für die Implementierung struktureller Hilfen der EU und bewertet ihre Eignung als Modell für die Bereitstellung externer Hilfen für Entwicklungsländer.

## Resumen

La política regional de la UE ha sido una de sus áreas de intervención más exitosas. Durante las últimas tres décadas, ha constituido un ámbito de intensa experimentación, con enfoques novedosos respecto de los procedimientos y transformaciones esenciales en las políticas de desarrollo. En efecto, se han producido cambios sustanciales en la formulación e implementación de las políticas de desarrollo territoriales, los cuales a su vez han influido en gran medida sobre el modo en que operan otras organizaciones internacionales y donantes privados. El artículo proporciona una visión panorámica de los principios fundamentales que gobiernan la ejecución de las medidas de asistencia estructural de la UE, y evalúa su idoneidad como modelo para la asistencia externa a países en desarrollo.

experiment with innovative bottom-up approaches to policy implementation due to high risks of failure. As a result, it is often the case that bureaucratisation leads to the adverse effects. Instead of empowering the less advantaged regions and groups, it is those regions that already possess powerful resources that benefit the most from available opportunities.