Challenges to the Perspectives of New European Union Regional Policy Legislation

Zoran Sapurik, Marko Andonov, Stevo Pendarovski

Abstract

The contemporary European Union is a decentralized community. The Union’s regional policy has a long tradition, which is shaped by common EU legislation. EU regional policy is primarily directed towards overcoming disparities in the economic development of various regions, which has a strong impact on the equalization of the whole EU. Funding for the development of various regions has been constantly increasing. In 2006-2013, 347 billion Euros were allocated to the various regions. EU policy is very dynamic and it is being continuously upgraded. Since enlargement in 2004 and 2007, the transformation of regional policy has become unavoidable because the economic disparities have significantly deepened. Bigger disparities have caused the need for changes in EU regional policy legislation. Most recently, in December 2014, a package of new legislation was adopted, with which a new legal framework was established. It is aimed at providing for a more efficient and effective management of the ERDF, ESF and CH. The new legislation is faced with the numerous of challenges. The goal has been to produce a further simplification of procedures related to regional policy, to strengthen the links of all regional projects with energy efficiency and environmental matters and to enable a more comprehensive use of the economic potential of various regions. This will require stronger cooperation between the EU, the member states, and the regions. The main aim of this chapter is to analyze the new EU regional policy legislation and to highlight its future challenges and perspectives. The paper also includes a SWOT analysis of the potential for the implementation of the new legislation, so as to determine the obstacles and potential for the further strengthening of regional policy. This paper also aims at initializing a wider debate about the future perspectives of this legislation.

Keywords: EU, legislation, cohesion, regional policy, economy, disparities.
Introduction

The importance of regional policy has been growing permanently. The Union of the regions is not only a syntagma, it is also a reality and one of the key elements of EU cohesion. Any disparities between the regions serve only to endanger the functioning and cohesion of the Union’s single market and the Union as a whole. The less developed regions have handicaps such as an undeveloped infrastructure, high levels of unemployment, a deficiency in technologies, low levels of energy efficiency, and environmental protection. These handicaps impede the development of EU cohesion. EU regional policy is shaped by the common legal framework. The commitment of the EU to the implementation of regional policy can be recognized in the Treaty on European Union and the Treaty on the functioning of the European Union which both have a constitutional significance. The Treaty on European Union defines economic and social cohesion as a fundamental objective of the Union (Treaty on the EU, 2010). The Treaty on the functioning of the EU determines the activities that are aimed at reducing the disparities between the levels of development of the various regions (Treaty on the functioning, 2010). This Treaty promotes financial instruments for reducing disparities and stipulates financial funds as one of the most important pillars for the performance of regional policy. Without strong financial support for the less developed regions, it is not possible to implement a common regional policy. The Treaty of Rome (Rome Treaty, 1957) does not anticipate the common regional policy. The Single European Act (Single European Act, 1986) makes the first significant steps in the mitigation of regional disparities. The Treaty of Maastricht (Maastricht Treaty, 1992) sets clear rules for a more coherent regional policy. Since then, EU regional policy has been continuously strengthened. Most recently in December 2014, a new package of EU regional policy legislation was adopted. The new legislation faces a number of challenges in establishing a system which will significantly contribute towards the further mitigation of regional imbalances. This increases the importance of the research and debates related to this new legislation, especially considering that there is not yet a practical example of the implementation of projects according to this legislation.
EU Regional Policy and Legislation in the 2007-2014

EU regional policy includes a number of key components, of which the most important are the economic, social, legal, and political ones. The reduction of disparities between the member states and the regions is only made possible with the use of effective financial instruments. In the period 2007-2013, 347 billion Euros were allocated towards the stimulation of regional development (Mathijesen, 2010). The Treaty on the functioning of the EU ensures that the Union will support the cohesion policy including a reduction in the economic disparities between various regions, by actions taken through the structural funds and cohesion funds. The most important funds are the European Regional Development Fund (ERDF), the European Social (ESF) and the Cohesion Fund (CH).

Since 2002, the European Commission has been conducting in depth analyses of the implementation of common regional policy in its progress reports on cohesion. The First progress report (Progress report, 2002) established the directions for the future activities of regional policy. The historic enlargement from 2004, expanding the EU from 15 to 25 member states intensified regional disparities, thereby signaling the need for further reforms. The Third progress report on cohesion (Progress report 2005) underlined that in all new member states GDP per head was below 90% of the EU 25 average, while it was less than half in many member states. In the new member states, 90% of the population lived in regions where GDP per head of population was below 75% of the average, while in the old 15 member states, this concerned only 13%. It clearly demonstrated the differences in regional development and the need for focusing on the problems of unemployment in the less developed regions. At the end of the day the objective of the Union’s cohesion policy meant more than just the redistribution of funds to the poorest member states and regions (Mousis, 2006). This also covered a set of complex activities by the EU, member states, and regions. However these funds have a crucial importance for the enforcement of EU regional policy. Eight progress reports on economic, social and territorial cohesion adopted in June 2013, reaffirmed the need for the reforming of regional policy (Progress report 2013). This report was adopted during the final negotiations of cohesion policy for the period 2014-2020. It underlines that future cohesion should ensure that regional investment funds will contribute to overcoming the impact of the crisis and combating unemployment. The unemployment rate increased from 7% to 10% between 2008 and 2012 which mainly affects
the less developed member states and regions. It was a call for urgent change in regional policy legislation.

The fact that there is not as yet a practical example of the implementation of any projects in accordance with the new legislation produces a need to comment on the legislation of 2007-2013. The basic elements of the financial instruments of EU regional policy for the period 2007-2013 are stipulated in the regulations on laying down general provisions on the ERDF, the ESF and CF (Regulation 1083/2006). This regulation sets general provisions for the ERDF and ESF, which are specified as the structural funds, and the Cohesion Fund (CF). It is of great importance because it establishes a core framework for regional funds and the criteria for using these funds. The Regulation promotes the strengthening of the economic and social cohesion of the enlarged Union. The ERDF has been reformed several times since 1975 when it was first established. The Regulation underlines that the ERDF makes a significant contribution to the development of the regions by financing productive investments in the different spheres (Regulation 1080/2006). It provides an important role in solving economic, environmental, and social problems in various urban and rural areas through the ERDF. The basic rules for the functioning of the ESF are determined in the Regulation on the ESF (Regulation 1081/2006). The Regulation sets the tasks of the ESF and underlines that it is aimed at contributions for strengthening economic and social cohesion by improving employment, productivity at work, social inclusion and a reduction in national, regional and local employment disparities. The operating of a CF for the 2007-2013 period is stipulated in the Regulation on CF. (Regulation 1084/2006). The main goal of this Fund is to support the enhancement of the economic and social cohesion of the Union in the interests of promoting sustainable development). The Fund supports projects in the sphere of infrastructure, especially transport networks, public transport and clean urban transport, environment, energy efficiency and renewable energy. This shows the significance of regional funds, as the financial instruments aimed at reducing disparities between the regions. As mentioned above the EU budget allocated to regional policy for the period 2007-2013, amounts to 347 billion Euros, which is approximately 35% of the EU budget. Overall regional investments in 2007-2013 were used: 201 billion Euros through the ERDF, 76 billion Euros through ESF, and 70 billion Euros through the CF. The regional investment used for the 2007-2014 in the different areas is displayed in the table below. It demonstrates the diversity of areas supported by regional funds.
Table 1 Distribution of EU Regional policy instruments for 2007-2013 (European Commission – Eurostat 2014)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Financial asset in billion Euro</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>83.28</td>
<td>24</td>
</tr>
<tr>
<td>Transport</td>
<td>76.34</td>
<td>22</td>
</tr>
<tr>
<td>Human resources</td>
<td>76.34</td>
<td>22</td>
</tr>
<tr>
<td>Environment</td>
<td>65.93</td>
<td>19</td>
</tr>
<tr>
<td>European Territorial cooperation</td>
<td>8.68</td>
<td>2.5</td>
</tr>
<tr>
<td>Others</td>
<td>36.43</td>
<td>10.5</td>
</tr>
<tr>
<td>Total</td>
<td>347</td>
<td>100</td>
</tr>
</tbody>
</table>

New European Union Regional Policy Legislation

The EU Strategy - Europe 2020, for smart, sustainable and inclusive growth, from 2010, determines the priorities that should lie at the heart of Europe 2020: smart growth developing and an economy based on knowledge and innovation; sustainable growth, promoting more efficiency of resources and a greener and more competitive economy; and, high employment and a strengthening of economic, social and territorial cohesion (EU Strategy 2020). The Cohesion of the EU together with the regional funds is defined as a key delivery mechanism for achieving the priorities of the Strategy. It clearly demonstrates the strong determination for the further strengthening of regional policy.

The seventh progress report of the European Commission was amended by the Eighth progress report (2013). It is very important in this part of the chapter to underline that the documents mentioned above deeply analyze current regional policy. These strategic documents make serious
efforts for establishing the new possibilities for stronger cohesion and provocing changes in the legal regulation.

More recently the EU has adopted new regional policy legislation. The most important part of this legislation is made up of: Regulations on common provisions for the ERDF, the ESF, the CH, the European Agriculture Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), (Regulation 1303/2013); Regulations for the ERDF with specific provisions concerning investment in growth and jobs (Regulation 1301/2013); Regulation for the ESF (Regulation 1304/2013); Regulations on specific provisions for the support for the European territorial cooperation goal (Regulation 1299/2013) and Regulations on the CF (Regulation 1300/2013). Just before the beginning of the practical enforcement of these processes, there are great expectations that this legislation will contribute to the further strengthening of regional policy.

Regulation 1299/2013 establishes the scope of the ERDF relating to the goal of territorial cooperation. It regulates the priority objectives and criteria for using the resources of the funds. It makes efforts to ensure the effective implementation of regional projects. According to the projections for the Regulation of resources for European territorial cooperation the goal of 2.75% of total global resources available from the ERDF, ESF and CF for the period 2014-2020 should be achieved. Indicators for the achievement of the goals are defined in the annex of the Regulations. These include: productive investment in enterprises; a growth in employment in supported enterprise; the total length in kilometers of newly built and reconstructed roads and railway lines that is required; the total length of new or improved tram and metro lines; an increase in the number of visits to supported sites of cultural and natural heritage; additional waste recycling capacity; improved water supplies and wastewater treatment; the total surface area of rehabilitated land; the surface area of habitats supporting a better conservation status; the number of new research projects on supported entities; additional capacity for the production of renewable energy; the number of households with improved energy consumption, a reduction in green house gases and other indicators. These indicators will give an opportunity for a more objective measuring of the achievement of the projected goals, which was one of the main weaknesses of the previous regional policy.

Regulation 1300/2013 determines the tasks of the CF and sets out the investment priorities, which are: the development of a low carbon economy, the promotion of renewable energy and energy efficiency, climate change
adaptation, the preservation and protection of the environment, sustainable transport and the enhancement of the institutional capacity of public authorities. This Regulation stipulates that regions whose GDP per capita for the 2007–2013 period, was less than 75% of the average GDP of the EU 25 would be considered as transitional regions. It also lays down the common rules applicable to the ERDF, the ESF, the CF Fund, the EAFRD and the EMFF, which operate under a common framework (the “European Structural and Investment Funds” - ESI Funds). This should ensure the effectiveness of these funds and their better coordination with the other financial instruments of the European Union.

Regulation 1301/2013 stipulates that the ERDF will contribute to the financing of the projects which aim to reinforce economic, social and territorial cohesion by redressing the main regional imbalances of the EU, through sustainable development and the structural adjustment of regional economies, including the conversion of declining industrial regions. The Regulation introduces a new determination in regional policy legislation, by promoting the rule, that at least 80% of total ERDF resources at national level in the more developed regions will be allocated to two or more of the thematic objectives which include: the strengthening of research, technological development and innovation; enhancing access to the use and quality of information technology; supporting a low carbon economy, and climate change adaptation.

Regulation 1304/2013 establishes the main tasks of the ESF. This includes tackling youth employment and promoting high levels of employment and job quality; whilst at the same time paving the way for an improvement in access to labor markets, and providing support for the mobility of workers and their adaptation to industrial change, alongside creating high levels of education, combating poverty, furthering social inclusion, and ensuring gender equality and equal opportunities. At least 20% of the total ESF resources in each member state will be allocated to the thematic objective of promoting social inclusion, and combating poverty and discrimination.

The new EU regional policy legislation promotes a number of reforms and a simplification in the management of regional funds. It stipulates lighter procedures and is aimed at reaching rational new goals in regional policy. This legislation makes serious efforts in providing greater flexibility in the management of regional funds and better harmonization in the operation of different funds that is one of it’s strongest points. The new legislation also
introduces a simplification in the auditing of projects. Our prediction is that the harmonization of the rules for different funds will contribute to a stronger concentration of financial and human resources in the EU, amongst member states and at a regional level. The member states and regions have more possibilities to choosing the most favorable options for the implementation and management of projects, which will enhance the role of regions in both the design and enforcement of common regional policy. The new legislation sets the general principles which should make a significant additional contribution to the implementation of the EU 2020 main goals.

**Challenges to the Reformed European Union Regional Policy Legislation**

The reformed European Union regional policy legislation sets a very ambitious agenda. One of the most important reforms is concerned with simplifying the management of regional funds. It should ensure a more efficient and effective distribution of regional funds and a reduction of administrative procedures at national, regional and EU levels. This legislation is faced with a challenge aimed at enabling the use of a better combination of EU regional financial instruments with the other reforms of support, such as grants, loans, national contributions, budget investments, and public/private partnerships. The practical implementation of that legislation is a hard and serious task and it has to meet the specific needs of member states and the various regions. Establishing a system for the efficient coordination of EU, member states and regional financial instruments is a big challenge for the practical enforcement of the new legislation.

The new legislation provides a challenge to the EU Strategy 2020 targets: by 2020, 75% of the population aged between 20 and 64 should be employed; 3% of the EU’s GDP should be invested in research and development and the "20/20/20" climate/energy targets; the number of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree whilst 20 million people less should be at risk of poverty. It will be a hard task considering the diversity in the development of all the member states and the various regions, and the effects of the slow down in economic growth. Also any increase in the levels of education should be not followed by any reduction in educational quality.

The reformed legislation is aimed at a stronger contribution in regional policy to sustainable growth in the period 2014-2020. The regional
policy is aimed at investing in more sustainable growth with an emphasis on resource efficiency and a low carbon and environmentally friendly economy, by strengthening the application of the principles of sustainable development in operational programs. It is related to the programs for investment in renewable energy and energy efficiency depending on regional energy potential. This necessitates a respect for variety of conditions in the regions. It is important to underline that in the future the regions will play an important role in achieving the EU 20 – 20 – 20 energy targets, determined and specified in the Directive on energy efficiency (Directive 2012/27). The reformed regional policy and legislation is confronted with the challenge of enabling a stronger orientation of funds to the development of skills and research, the creation of productive and environmentally friendly green jobs, job creation, and numerous activities associated with the reduction of unemployment. The real implementation of labor mobility is also a big challenge, taking into account big differences in development inside the EU and the fact that in a number of developed member states the level of unemployment is still rising. This very often produces resistance among different groups in these states to workers migrating from other states.

According to the multi-annual EU financial framework projection, which is the EU budget framework for the years 2014-2020 (Regulation 1311/2013), from the total amount of 960 billion Euros, approximately 370 billion Euros will be invested in the EU regions. The support for small and medium sized enterprises, arising from the European Development fund will be doubled from 70 billion Euros in 2007-2013, to 140 billion Euros, which demonstrates the determination to invest more in a real economy. It aims toward the creation of new jobs and mitigates unemployment as one of the biggest problems in the EU. The reformed policy has the task of implementing the obligations of member states and regions to announce what objectives they plan to achieve and to determine the indicators for measuring progress towards the projected goals. It therefore creates preconditions for the extensive public debate and transparency in the decision making process.
Table 2 Projections of total EU allocations of Cohesion Policy 2014-2020 (million €, current prices)

The figures in table 2 demonstrate the diversity of spheres, that EU funds will be supporting in the period of 2014-2020. The amount for the less developed regions is over three times greater than for the more developed ones, which in our opinion is still not enough. The funding for investment in
the real economy and in urban areas is significantly greater than in 2007–2013. The rest of the projected figures amount to up to 370 billion euro, which will be allocated in the near future.

The SWOT analysis of the new regional policy and its legislation made for the purposes of this paper shows strong points, weak points, opportunities and threats for the further enforcement of the reformed EU regional policy and its legislation. This analysis is performed with the aim of determining the potential for the implementation of new regional policy legislation, so as to determine the obstacles to a further strengthening of EU regional policy.

The main strong points of the reformed EU policy are: compliance with the EU 2020 Strategy; financial potentials for supporting regional policy, the prioritization of the green economy with a high level of environmental standards; energy efficiency and the prioritization of the concept of sustainable development, that will improve the quality of life of EU citizens and will contribute to the development of new green technologies; a stronger coordination of the regional funds with the other various EU, national and regional financial instruments; the establishing of a legal base for the better coordination of EU institutions and member states and regional institutions; and, the determination of measurable indicators and more investments in a real economy.

The main weak points resulting from the SWOT analysis are: the short period for the beginning of the practical implementation of the new legislation – it was adopted on the end of 2013; insufficient funds for combating the problem of youth unemployment; a shortage of resources for cross border cooperation and the still high level of financing for the more developed regions, which reduces the possibility of funding the less developed regions.

The opportunities resulting from the SWOT analysis are: more flexibility in the management of different funds; the determination of conditions for labor market liberalization; the capacity building of the regional administration and all stakeholders and commitments involved in this; additional education and new qualifications for the labor force and the establishing of measurable indicators which will enable the evaluation of the realization of projects and a commitment to gender equality and social inclusion.

The threats demonstrated by the SWOT analysis are: large disparities in the development of member states and various regions; the low level of administrative capacities in a number regions; the economic crisis and reduced economic growth; high levels of unemployment in member states; resistance by some interest groups in many member states to workers from other
states; and the rapid increase in the number of highly educated people without any precise analysis of the needs of the real economy, which could produce a decline in the real quality of education.

The SWOT analysis shows that the new regional policy and its legislation have the potential for establishing a new base for strengthening EU regional policy. However, this analysis also shows the threats and the challenges that may arise in the future with regard to solving a number of problems concerning the successful implementation of regional policy in 2014–2020, which will depend on the achievement of the projected goals in different spheres.

**Conclusion**

EU regional policy has a long tradition. The EU has been acting continuously in the direction of strengthening its regional policy, as an important part of EU cohesion. The main instruments for the financial support of the regional policy are the regional funds, especially the ERDF, ESF and CH, which significantly contribute to a reduction of regional disparities. The new legislation that has been recently adopted, as a legal base opens new possibilities for reforms in regional policy. This legislation promotes more flexibility in the operation of the regional funds and provides an opportunity for better coordination between the regional funds and other financial instruments. It also provides a simplification of the procedure and numerous innovations which should enable further investments in the spheres of transport, communication, energy, environment, and in other spheres as well. All stipulated measures are aimed at reducing the differences in the development of various regions and in contributing to the creation of new sustainable jobs.

At the same time this legislation is faced with a number of threats which could slow down regional development, that produces the need for further permanent activities. The new regional policy legislation is also confronted with numerous of challenges which are related to the fulfillment of the goals of the EU 2020 strategies. In our opinion, in spite of some obstacles and threats the EU should continue to strengthen its cohesion and the EU is on the right path to mitigating regional imbalances. However, we strongly believe that the support for the developed regions should be carefully allocated in order to open more opportunities for the undeveloped regions.
The SWOT analysis confirms the potentials and opportunities of the new regional policy legislation to tackle future challenges. Furthermore, we expect that this paper will encourage further research of the most recently adopted regional policy legislation.

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