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## **WORKING DOCUMENT**

on the role and the effectiveness of cohesion policy in reducing development disparities in the poorest regions of the EU

Committee on Regional Development

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The goal of EU cohesion policy is to further economic and social cohesion between the Union's regions. Those regions lagging behind in their development, undergoing restructuring or affected by specific geographical, economic or social handicaps are to be giving assistance in solving their problems and coping with their difficulties. As is shown by numerous examples, successful development has been achieved in many of the former poor regions in the Union. With help of the Structural Funds the four earlier so called cohesion countries, Ireland, Greece, Portugal and Spain, have all shown remarkable growth.

However, regional development disparities are much more pronounced in the EU 27 than in the EU 15, which urge for serious actions on how to reduce these disparities. Despite the significant economic progress already made in the Member States which joined the EU in 2004, development lags are prevailing often due to administrative shortcomings. Economic growth has a tendency to be concentrated around certain areas. Evidence of such concentration is particularly present in the Central and Eastern European Countries with fast growing capital city regions. Urban growth with increasing competitiveness can, in many ways, catalyse development in surrounding rural communities. However, certain regions are still showing lack of economic growth. Recent figures published by Eurostat show a wide development gap between the richest EU regions and the poorest, and the newly joined Member States from CEE dominate the lowest position.

**Table 1**

***Regional GDP per inhabitant in the EU 25 - 2003 figures***  
(in PPS, EU 25=100)

The ten highest			The ten lowest		
1	Inner London (UK)	278	1	Lubelskie (PL)	33
2	Bruxelles-Capitale (BE)	238	2	Podkarpackie (PL)	33
3	Luxembourg	234	3	Podlaskie (PL)	36
4	Hamburg (DE)	184	4	Świętokrzyskie (PL)	37
5	Île de France (FR)	173	5	Warmińsko-Mazurskie (PL)	37
6	Wien (AT)	171	6	Opolskie (PL)	37
7	Berkshire, Buckinghamshire & Oxfordshire (UK)	165	7	Észak Magyarorszá (HU)	38
8	Provincia Autonoma Bolzano (IT)	160	8	Východné Slovensko (SK)	39
9	Oberbayern (DE)	158	9	Eszag-Alföld (HU)	39
10	Stockholm (SE)	158	10	Dél-Alföld (HU)	40

Table 2

**Regional GDP per inhabitant in the EU 27 - 2006 figures**  
(in PPS, EU 25=100)

Region	GDP (in PPS) per capita in % of the EU-25-average (EU-25 = 100)
Inner London (UK)	277.6
Bruxelles-Brussels (BE)	237.6
Luxembourg (LU)	233.9
Hamburg (DE)	184.0
Île de France (FR)	173.3
Wien (AT)	170.9
Berkshire, Buckinghamshire and Oxfordshire (UK)	165.1
Provincia Autonoma Bolzano/Bozen (IT)	160.0
Oberbayern (DE)	157.9
Stockholm (SE)	157.9
Åland (FI)	154.3
Utrecht (NL)	152.5
North Eastern Scotland (UK)	150.3
Southern and Eastern (IE)	149.2
Darmstadt (DE)	148.3
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Vest (RO)	34.0
Podkarpackie (PL)	33.2
Lubelskie (PL)	33.2
Centru (RO)	32.3
Istocna Hrvatska (HR)	31.0
Nord-Vest (RO)	29.1
Severozapaden (BG)	26.1
Sud-Est (RO)	25.6
Sud-Vest (RO)	25.5
Severoiztochen (BG)	25.3
Yugoiztochen (BG)	24.9
Yuzhen tsentralen (BG)	24.6
Sud (RO)	24.4
Severen tsentralen (BG)	24.2
Nord-Est (RO)	21.7

*Regions with the lowest/highest per capita GDPs (in PPS) (EU 25=100)*

This draft initiative report aims to stress certain principles on how Member States and EU could act to increase the effectiveness of EU cohesion policy in the poorest regions. Funds have been earmarked for the development of the poorest regions in the 2007-2013 financial perspective. These funds must now be efficiently absorbed.

Speeding up economic growth in the poorest regions is an essential precondition when fostering high and long-term lasting standards of living in the Union. Convergence of EU regions is of crucial importance if the Union is to be globally competitive and strong in the coming future. Policy impacts risk being watered down with increasing costs put to the future if regions that are facing development difficulties keep lagging behind.

- EU cohesion policy must **identify the particular needs** of the poorest regions and find accurate mechanisms that boost their development.

It is fundamental to locate the main needs of an individual region and to focus the funding at the right level. For the cohesion countries, an infrastructure "background" for other

investments has to be settled. There is no given contradiction between competitiveness and the goal of cohesion; however, the essential thing is to understand where the leverage effect uplifts growth. To reach certain level of competitiveness poor regions need to have developed appropriate basic infrastructure and human resources.

- The existence of **difficulties for the poorest regions to absorb** the funds is a pertinent problem. Authorities often lack the skills and experience or matching funds to deal with the complicated requirements of cohesion policy, and are thus unable to claim the funds to which, in principle, they are entitled to.

This is a pressing problem especially for the new Member States and the accession countries.

Table 3

***Real GDP growth rate***

Growth rate of GDP volume - percentage change on previous year  
(2006, 2007 and 2008 indicate forecasts)

	1997	-98	-99	-00	-01	-02	-03	-04	-05	-06	-07	-08
Bulgaria	-5.4	3.9	2.3	5.4	4.1	4.9	4.5	5.6	5.5	6.0	6.0	6.2
Romania			-1.2	2.1	5.7	5.1	5.2	8.4	4.1	7.2	5.8	5.6
EU 25	2.7	3.0	3.0	3.9	2.0	1.2	1.3	2.3	1.7	2.8	2.4	2.4
EU 15	2.6	2.9	3.0	3.9	1.9	1.1	1.1	2.2	1.5	2.6	2.2	2.3

As can be seen from Table 3, the economic growth potential is particularly notable in the two countries which have joined the EU in 2007 – Bulgaria and Romania. To fully address this development potential, the relevant administrations have to be functioning effectively. The need for institutional capacity is stressed as a prerequisite for successful implementation of programmes and projects together with the development of human resources. During the pre-accession aid period various programmes have revealed a large number of institutional, managerial and administrative shortcomings on the receiving side, shortcomings that have not yet been fully overcome but which must be addressed in the nearest future if funds are to be accurately invested and spent.

Sound structural fund management calls for **co-ordination of the various levels (political, technical and administrative)**. This is a pressing problem in the new Member States and much more effective action needs to be taken. Discussions to ensure coherence between EU, Member States and regions are of essential importance, and no sphere of governance should be left out of this structured dialogue. Cohesion policy is not just about economic funds, it is also about **partnership between the various stakeholders**. To improve the leverage effect, not only one level needs to act and co-operate; proper information flow and partnerships are therefore especially needful.

- A framework which puts the interactions into practice as well as the exchange of experiences should be arranged, this effort may also enable norms and standards to be settled that increase administrative capacities in handling the implementation of regulations and rules.

It is fundamental to make more use of **Public-Private Partnership** in order to budget the funds and make capital available. Rules must be settled for the implementation of PPPs, and obstacles thereto should be reduced. A lack of good practices exists in new Member States.

- The importance of **additionality** needs to be further stressed. The involvement of private capital is a key aspect that has the potential to boost additional investments. The financial support should be spent transparently to make sure that they reach the set objectives.
- **Jaspers, Jeremie and Jessica** are excellent tools to help, inter alia, SMEs at regional level, but much more need to be done by Member States and the Commission to promote them and ensure that full and effective use is made of them, particularly in the poorest regions.
- Economic development is closely connected to **innovation** which, moreover, is a key element for regional development. EU cohesion policy must, under the Lisbon Strategy, be directed towards increasing the EU's innovation capacity and the importance is therefore that this objective does not ignore the poorest regions.
- Entrepreneurship must be actively supported, and this needs to involve all stakeholders. Entrepreneurship should be promoted particularly among women and young people entering the labour market and among socially excluded groups. An important factor in the promotion of innovation is also to improve the quality of rules and regulations in EU countries, in order to ensure that they foster, rather than block, innovation processes in important sectors of the economy. The poorest regions are likely to be more vulnerable in this regard.

Numerous examples show a lack of capacity in the new Member States to make use of funds. The **administrative qualities must therefore be improved** so that the regions receiving funds are able to absorb and make good use of the aid. Technical assistance is essential, especially in preparing the implementation of new projects. There is an urge for quality, both externally in the form of expert knowledge, but also internally; to know what is really needed and to carry out appropriate quality controls on projects and the spending of funds. There is also a call for up-to-date assessments of sustainable project already implemented.

- A special amount from the funds could be spent on preparing, monitoring, evaluating and experts. This aid, if properly spent, could prove to be of essential importance in, especially, countries with a more complex administrative system.

It is of important that the **funds reach the eligible regions rapidly**. It sometimes takes too long time for funds to reach the beneficiaries, and it is a challenge for all parties to circulate them accurately.

It is difficult to avoid the complexity in the system for using structural funds, on which three

different levels of regulation have an impact: community rules, national frameworks and practices at regional level. **Procedural simplification** is, thus, a challenge for all three levels in order to avoid any subsequent interpretation and to ease and speed up execution of the programmes.

**There is a need for synergy between policies**, both European as well as national policies. Policies should complement and not run counter each other. The territorial concentration in individual countries and regions of the benefits of other European policies may for example dilute the impact of development policies. Regional development must also have social as well as environmental dimensions.

- The impact of possible distortionary effects between policies should be taken into account and studied in the 2009 mid-term review of the Community budget and in the 4th Report on Economic and Social cohesion.

In order to bolster cohesion and effective development in the poorest regions, it is a necessity to **mobilise all stakeholders**; to include and ensure the fullest participation of all concerned.

Unemployment - by which the poorest regions are hardest hit - must be combated. The existence of long-term unemployment among certain social groups is particularly worrying. **With a view to achieving social cohesion, efforts must be made to ensure the best possible integration of people with disabilities.** This is a prerequisite to attain accurate living standards for the whole of EU society. Furthermore, cohesion in the EU is helped by **equal opportunities for men and women on the labour market.** Differences still prevail concerning salary levels between men and women and this hampers the economy to grow. Attention to gender differences will increase the quality of effective implementation of cohesion policy. Employers and employees at all levels of the process need to be aware of this, and appropriate action needs to be taken in this area.

- Information needs to be provided on the need for and means of implementing a gender-equality approach when implementing and evaluating programmes and projects, with a better use of studies and analysis already done. Practical realisations of such issues can still be made, such as ensuring gender proofed budgeting (for example is the budget adequate for implementing equal opportunities actions), making social partners and relevant actors aware of gender aspects and make certain the availability of gender expertise. An intelligent approach to gender in social and economic life, while avoiding stereotyping the social roles of men and women, is essential in making cohesion policy more effective.

A balanced development approach tailored to a region's specific characteristics and problems is vital in the poorest regions if the European policies aimed a reducing development disparities are to become true sustainable EU development and cohesion strategies.