

Regional Policy and Decentralisation: Experience in the EU

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ABSTRACT

The European Union is tackling its regional economic disparities. This task is being undertaken through a multi-level approach, where the regions, countries and supra-national level of the European Union are all involved. The article evaluates the impact of regional policy on the process of decentralisation. The concept of regional policy is based on multi-level cooperation and the interaction of players in regions and at national level. It introduces an effective subsidiary of decision-making related to development and could thus contribute to decentralising the decision-making process. The paper comes to the conclusion that the implementation of regional policy at the EU level is contribute to the decentralisation of decision making in the Member States of the EU.

Keywords: *Regional policy, European Union (EU), subsidiary, decentralisation, disparities*

1. INTRODUCTION

The economic disparities within the European Union are, one of the political issues high on the EU political agenda. Economic disparities are common to each larger regional entity.

Welfare heterogeneity is a natural phenomenon. It mirrors the competitive advantages of the individual micro-regions such as their connectivity, centre-periphery position, availability of natural resources, quality of labour force, levels of technology and R&D.

Regional disparities represent a risk for political stability for the EU because of the fact that social impact in the regions lagging behind is bigger in a large region, such as the EU, due to the removal of barriers for the mobility of factors, including labour force.

The first objective of the article is to draw lessons from the functioning of regional policy. The second objective is to evaluate whether the implementation of the regional policy at the EU level is increasing decentralisation of the decision making at the regional level at the sub-state scale.

The literature on economic disparities within the regions of the EU include studies of Villaverde, J. Maza, A. (2009), Dufek, J., Minarik, B. (2009), Tarschys, D. (2011) and Blizkovsky, P. (2012). The results are mixed. According to the methodology used, time period and country in question the economic convergence or divergence has been reported.

The literature on the design of the European Union's regional policy include Ederveen, S., Gorter, J., De Mooij, R. and Nahuis, R. (2002); Bachtler, J., Wishlade, F. (2005); Leonardi, R. (2005), European Commission (2008, 2008a); Godet, M., Durance, P., Mousili, M.(2010).

The objective of the European Union's regional policy is to promote the harmonious development of the

European Union and, in so doing, strengthen its economic, social and territorial cohesion. The European

Union aims to reduce the disparities between the development levels of its regions. Specific attention is paid to rural areas, as well as regions in industrial transition and with permanent natural or demographic handicaps (European Union 2010a)¹.

The cohesion policy has two missions: firstly, to support the cohesive development of the European regions, specifically the poorer ones. Its secondary objective, which is not written in the Treaty, is to accompany other European Union policies. Such policies were the EU enlargement process, the creation of a single market, the creation of the Economic and Monetary Union and the adoption of a single currency.

The EU cohesion policy is based on four principles. The first is the concentration principle. According to this principle, Member States are required to narrow down their priorities. This requirement is in response to the fact that the resources that form the European budget are limited and therefore, a national selection should be made. The European Union opted for a geographical concentration and a thematic one. The geographic concentration gives priority in the current financial perspectives to regions which are below 75% of the EU average GDP per capita. In terms of thematic concentration, the European Union decides on strategic guidelines which limit the choice of the Member States. The national level is also asked to earmark the key priorities which they want to put forward. The second principle is partnership. This refers to implementation and governance. The cohesion funds are typically implemented in a decentralised manner where central, regional and local authorities are involved. This principle is applicable at all stages of the cohesion policy, i.e. design, management, implementation and evaluation. The third principle is multiannual programming. This principle follows from the fact that projects in the cohesion policy are of a long-term investment nature. This is why project managers should have long-term transparency about the public funds available. On this basis, they can make qualified decisions on the viability of the project and its financial backing. The last principle is additionality. This principle stipulates that the financing from the regional

¹ Article 174, Treaty on the Functioning of the European Union (TFEU)

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policy is not a simple substitution for national expenditure by Member States. That is why the Member States are requested to add public funding to the European Union part of the funding (European Union 2006)². This principle makes it easier to achieve sensible projects because of the co-financing from the European budget. At the same time, it gives priority to the projects with the biggest added value to the region.

There are currently three types of objectives of the EU regional policy: support for regional convergence (financially the most important one has 81.5% of the regional policy allocation from the European Union budget), regional competitiveness and employment (with 16% of the cohesion policy allocation), and cross-border territorial cooperation (with 2.5% of the cohesion policy allocation) (European Union 2009).

On the funding, in the current period, 2007-2013, it accounts for more than one third of the total EU budget. In nominal terms, it represents 347.4 bn euro (European Union 2008a). This equals slightly more than 0.5% of the Gross National Income of the European Union. On top of this, Member States provide between 15 and 50% of the funds to co-finance projects. The project leaders as final recipients also have to participate financially.

The literature findings on the evaluation of the EU regional policy suggest that it is a complex exercise. The fifth report on economic, social and territorial cohesion (European Union, 2010) documents the achievements of cohesion policy for the benefit of economic development. Its macroeconomic effect is based on two different macroeconomic models: HERMIN, which is a macroeconomic model with neoclassical features on the supply side, and QUEST, which is a micro-founded dynamic general equilibrium model with endogenous growth. Both models do not measure the impact of policy but rather model it. The findings of both models vary, as HERMIN is based on more conservative assumptions than QUEST. The important findings are the following:

- According to HERMIN, cohesion policy is estimated to increase GDP in the main recipient Member States by an average of 1.2% each year. These effects are considered to be cumulative so that, by 2009, GDP in the main recipient Member States is estimated to have been around 11% higher than it otherwise would have been as a result of the cohesion policy.
- According to QUEST, the cumulative net effect of cohesion policy on GDP for the period 2000-2009 was estimated at 0.5% for EU-15, 3.7% for EU-10 and 0.7% for EU-25. The expectations for the period 2000-2015 are 1.9% for EU-15, 10.2% for EU-10 and 2.4% for EU-25.

- According to HERMIN, cohesion policy over the 2000-2006 period resulted in a return of 2.1 euro for each euro invested.
- According to QUEST the return in 2009 is 1.2 euro for each euro invested.
- According to HERMIN estimates, in 2009 the number of people employed was 5.6 million higher as a result of cohesion policy than in the period 2000-2006.

On the other hand, there is criticism of the EU regional policy. European Union (2010a) points out the lack of prioritisation of the objectives (thematic, geographical) and incoherence of the policy with other EU policies. The co-financing of EU regional policy is a conflicting issue. On the one hand, it has been criticised as too high (and thus providing funds for sub-optimal projects) and, on the other hand, in the poorer regions or in a situation of economic crisis, as being too low (and thus the potential of cohesion policy to help is limited).

From the side of economists, there is also criticism of this policy. Korkman, S. (2005) develops the case of the inefficiency of EU regional policy and the need for its re-nationalisation. Tarschys, D. (2011) also argues that regional policy should be national and is critical of the evaluation of the effects of the policy as provided by the European Commission.

The regional policy of the European Union is subject to regular modifications and adjustments. The suggestions for its modifications for the programming period of 2014-2020 include Barca, F. 2009; European Commission 2010, 2011 and 2011a, Langer B. and Schwenke M. 2011, Task Force 2010, Verhelst, S. 2011. The need for a change is partly driven by the public finance crisis in the European Union.

2. METHODOLOGY

A qualitative analysis was used for the analysis of the impact of the regional policy of the EU to the decentralisation of the decision making in the EU Member states.

In the case of the European Union, there are 27 Member States and three different layers of smaller regions.

First, on the definitions of the regions towards which the EU funds are addressed. The recipients of the EU cohesion fund are Member States, which are currently 27 and as of July 2013, there will be 28. The recipients of structural funds are sub-state regions called Nomenclature of Territorial Units for Statistics - NUTS 2- regions (European Union, 2003). There are 271 NUTS level 2 regions.

Second, on the evaluation of the decentralisation of the decision-making to the sub-state level. This analysis was based on the legal texts governing cohesion and structural funds in the EU. The research question was

² Council Regulation 1083/2006, Article 15, paragraph 3

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whether sub-state regions enjoy more decision-making power due to the existence of the regional policy of the EU.

3. RESULTS AND DISCUSSION

The analysis suggests, that the regional policy is supportive of decentralisation towards sub-state level. This is a result of the subsidiary principle, meaning that the centre (the EU) decides on the key parameters of the support to be provided to the Member States and the regions.

By decentralisation, we mean the process whereby decisions are taken at the lowest possible level. This provides the added value of the involvement of regional actors and the responsibility and accountability for the impact of their decisions. Decentralisation allows for a more bottom-up and initiative-driven approach. It additionally allows central levels to concentrate on strategic issues and not to be involved in the implementation of regional or local projects.

The hierarchy of the decision making in the EU and its Member States and sub-state regions is presented in the Table 1.

Table 1: Regional policy actors in the European Union

	Role	Financial participation
EU legislator	Designs legislative framework, defines budget and strategy	Decides on grants from the EU budget
EU execution	Controls implementation, financial management	Financial management
National level	Defines national priorities, ensures financial management, coordinates national players	Co-finances projects
Regional level	Defines regional priorities, interplays between national and project levels	Possible co-financing
Project level	Implements projects	Possible co-financing

First, the EU legislator decides on the basic principles and rules. There are two legislators: the European Parliament represents the people and the Council represents Member States. They act on the basis of a legislative proposal from the European Commission, the EU executive branch. The Committee of the Regions and the European Economic and Social Committee provide their opinion. The legal form of the rules is typically a Regulation. It is of the secondary law nature and has priority over national law. The EU legislators also decide on the guidelines which specify the main priorities for regional policy.

Second, once the European Parliament and the Council have adopted the law, the Member State decides on its own strategy for the priorities which it wishes to support within the framework of the decided rules and guidelines. The national government is also responsible for establishing the financial management of the grants from the EU budget. The government has an important role to play in deciding the national strategy. It has to consult all stakeholders, such as regional authorities, municipalities, the representation of sectors, NGOs and so on. Also inside the government, the various players are obliged to sit together and produce a unique national strategy.

Third, the regions come in. They design a regional operational programme or programmes. Once

again, in doing so, the regional authorities are pushed to act collectively. They are obliged to coordinate various sectoral policies in order to achieve the best results for regional development.

Fourth, there is the level of project leaders. They prepare the projects to be suggested to the public sphere. The project should fit within the general framework and the national and regional strategy. Once the project is selected for support, the project leaders implement it and ensure compliance with financial rules. An important role of the project leader is to ensure co-financing of the remaining part of the funds to join the financing from the European Union's budget.

An important part of management of the regional funds is the financial control and impact assessment of the completed project. This is a multi-level exercise in which the project leader and regional and national authorities are involved. They report to the European Union executive level. The feedback obtained is also used for designing the next generation of the regional funds rules and framework.

Concerning the time element, the legal framework of the structural funds is defined for a period of seven years. Its adoption interacts with the Multiannual Financial Framework (MFF), the general plan for the European Union's seven-year budget. The MFF is adopted in accordance with a special legislative

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procedure, where the Council acts unanimously after acquiring the consent of the majority of the European Parliament members (European Union 2010a)³. The MFF stipulates the amounts (own resources and expenditures) of the EU budget for the period of seven years. As the cohesion policy is one of the most important EU policies in budgetary terms, it is heavily influenced by the MFF. Once the Framework is adopted, the regulations in the area of cohesion policy take the necessary elements of the Framework into account.

The EU regularly checks whether the governance is working correctly. An ex-post evaluation for the period 2000-2006 indicated that the EU-10 countries successfully established managing authorities dealing with the EU funding.

Looking at the European experience, regional policy can be seen as a partnership between decentralising the activity and responsibility on the one hand, and guidance from the central level which defines the playing ground in which the decentralisation operates, on the other. The financial incentives provided by the central level allow the decentralisation of the decision-making at lower levels.

The partnership between decentralisation and centralisation of decision-making of regional policy is complex (Table 2).

Table 2: Decentralisation vs. centralisation, case of regional policy in the European Union

Level	Decentralisation	Centralisation
Transfer of funds between Member States via the European budget	Not involved	Involved
EU framework	Partially (Member States co-decide)	Involved
National level	Involved	Partially involved
Regional level	Involved	Not involved
Project level	Involved	Not involved

Looking at the decision-making cycle, it starts with centralisation and ends up with decentralisation.

First, Member States engage in welfare redistribution. At this stage no decentralisation occurs. All European Member States contribute in a bottom-up way to the common budget according to the agreed rules.

Next, and still with only partial decentralisation, the central level decides on the budget, rules and framework. The European Union determines general Community Strategic Guidelines. Partial decentralisation takes place, as Member States co-decide together with the European Parliament and typically listen to their regions in forming their national position.

Later in the process, decentralisation is involved. The central level of the European Union asks Member States to prepare their own priorities and implementation structures. There is a cluster of actors inside the national administrations involved in the whole process: central level, regional level, municipalities. On top of this, various stakeholders including NGOs are invited to participate. The aim is to allow for wide-ranging participation in the conception of national priorities.

In engaging such a decentralised approach, during 2000-2006 the EU-15 countries achieved spill over benefits for national policies in terms of improved strategic planning, higher quality of monitoring and evaluation and strengthened partnerships. They experienced certain institutional modifications since new territorial organs and new coordinating structures were introduced (European Commission, 2010).

As a result, Member States decided at the national level on the programming document, the National Strategic Reference Framework. This specifies the guidance which will later on govern the allocation of funds within the Member State. Finally, they adopted the Operational Programmes which translate the National Strategic Reference Framework into a management tool. In the programming period 2007-2013, the Commission has approved 423 Operational Programmes.

The next step goes further towards decentralisation. Regions are involved in establishing the regional priorities. The national level takes them into account when drafting Operational Programmes. In case the country decides to have one or more regional Operational Programmes, the region is later on fully involved in the management and evaluation.

Finally, at the project level, there is full decentralisation. It is the project leader who picks up the initiative, prepares the project documentation, applies for a grant, ensures co-financing from various sources and implements the project if selected.

The benefits of the decentralised approach of the European Union's regional policy can, in principle, be summarised as follows:

- Generate activity by regional and local actors
- Encourage cooperative approach among regional and local actors
- Allocate scarce resources to the best projects
- Stimulate vertical dialogue among decision-makers.

³ *Treaty on the Functioning of the European Union, Article 312*

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However, there are risks involved with decentralisation of decision-making on the economic development policies. In general, the risks of decentralisation are geographical, sectoral and administrative. The geographical risk lies in the lack of coordination and synergies between projects run by individual regions. The sectoral risk lies in the possible loss of focus and inappropriate coordination with other policies. Finally, decentralisation can lead to corruption, biased decisions and financial mismanagement. All these hazards, if they materialised, would lead to a sub-optimal use of public resources.

The impact of cohesion policy depends heavily on the availability of a proficient and efficient national public administration. Thus, a great effort has been made in the 2000-2006 period, especially through financing from the European Social Fund, to modernise and strengthen national administrative systems and build up institutional capacity. For example, in 2005, in Portugal 78 days and 11 procedures were needed to set up a business. After certain administrative amendments, assisted by the ESF, it took only 7 days and 7 procedures (European Commission, 2010).

4. CONCLUSIONS

The paper is analysing the functioning of the regional policy of the EU. The research question was whether the regional policy is supportive to the decentralisation of the decision making in the Member States of the EU.

The conclusion of the qualitative analysis is affirmative. The current design of the regional policy has increased the decentralisation at the sub-state level. This concerns new tasks which are delegated to the sub-state regions, including:

- Risk-opportunity analysis for the regions
- Deciding on the priorities for the regional development
- Selection of the suitable projects
- Financial control of the selected projects
- Evaluation.

The European Union adopted a decentralised model in which there is a partnership between central and regional levels. A subsidiary notion governs the whole concept of regional policy: there is a division of power between central-national-regional-local levels and decisions are attributed at the lowest possible level.

This approach, despite being criticised on economic grounds, provides added value in terms of governance and decentralisation.

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