Quantitative Economics for the Evaluation of the European Policy

Dipartimento di Economia e Management

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- In terms of per capita income, Luxembourg is now seven times richer than Romania.

Regional disparities

- At the regional level, the difference is even bigger: the richest region is Inner London in the United Kingdom with 325% of the EUs per capita income, while the poorest region is Severozapaden in Bulgaria with 30% of the EU.
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- Spain and Portugal joined (having applied in 1977) on 1 January 1986 in the third enlargement.

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- At the start of 1999 the **euro** as a currency was launched and the European Central Bank was established. On 1 January 2002, notes and coins were put into circulation, replacing the old currencies entirely.

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- The seventh enlargement was on July 2013 with the accession of Croatia.

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- In the preamble, the signatories of the Treaty declare that: "anxious to strengthen the unity of their economies and to ensure their harmonious development **by reducing the differences** existing between the various regions and the **backwardness** of the less-favoured regions [...]".

History of EU regional policy (cont.)

- Thus, with the Treaty of Rome the **European Social Fund** (ESF) was created with the function of improving job opportunities for workers, rising employment of young people and women, growth in educational attainment and increase in R&D and to raise the standard of living.
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- This fund was settled as a part of CAP and structured in two sections: Guarantee and Guidance.
  The first should be devoted to the general objective of market unity with guaranteed supply and price stability, while the EAGGF-Guidance should have the mission of promoting structural reforms for the development of the primary sector.
  $\Rightarrow$ EAGGF became the *second instrument*.

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- In that period the ERDF could finance three actions, eligible for up to 50% of public expenditure, preferably to be carried out in national state aid areas:
    1. investments in small enterprises creating at least 10 new jobs;
    2. investments in infrastructure related to point 1, and
    3. infrastructure investments in mountainous areas, which had to be eligible under the Agriculture Guidance Fund.

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- The SEA established a **Community policy of economic and social cohesion** to counterbalance the effects of the completion of the internal market on the less developed Member States.

The Community policy was intended as promoting the **competitiveness** of European regions (Articles 130(f)-130(p), Single European Act, 1987) and, at the same time at **reducing disparities** between the levels of development of various regions, and the **backwardness** of the less-favoured regions (Article 130(a), Single European Act, 1987).

1989-1993: A More Genuine EU Cohesion Policy

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- The reform was an attempt of changing the different funds into *real instruments of economic and social development*.
- Key principles were introduced, such as focusing on the poorest and most backward regions, multi-annual programming, strategic orientation of investments and the involvement of regional and local partners.

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In particular, four principles were introduced to ensure that funds were rationalized and well defined:

- 1. CONCENTRATION: In order to reach the greatest possible effectiveness of Structural Funds, their application obeyed the principle of concentrating on functional objectives. These objectives were five:

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  - **Objective 1**: promoting the development and structural adjustment of the less-developed NUTS 2 regions, that is:

    (i) regions whose **per capita GDP was lower than 75%** of the Community average, taking the figure for the three last years;
    (ii) Northern Ireland and the French overseas departments;
    (iii) other regions whose per capita GDP was close to that of regions mentioned in (i) and for which particular reasons existed for their inclusion on the list.

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- **Objective 2**: converting the regions, border regions, or part regions (including employment areas and urban communities) seriously affected by industrial decline, that is regions were to be designated at NUTS level 3 and had to have:

  (i) an average **level of unemployment** higher than that of the Community during the previous three years;
  (ii) **industrial employment**, as a percentage of employment, in excess of the Community average in any of the previous 15 years;
  (iii) and an observable **fall in industrial** employment relative to the reference year.

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- **Objective 3**: combating **long-term unemployment**, that is people over 25 and out of work twelve months or more, but this minimum period was waived in the case of women returning to work and people with disabilities;

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- **Objective 3**: combating **long-term unemployment**, that is people over 25 and out of work twelve months or more, but this minimum period was waived in the case of women returning to work and people with disabilities;
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- **Objective 5**: with a view to reform of the *common agricultural policy*:
  - *Objective 5a*: speeding up the adjustment of **agricultural and fishing sectors**;
  - *Objective 5b*: promoting the development of **rural areas**, that is areas with a below average level of economic development, employment dominated by the agricultural sector and poor level of agricultural incomes.

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The Structural Funds contributed to the attainment of objectives on the basis of the breakdown given below:

- Objective 1: ERDF, ESF, EAGGF Guidance Section;
- Objective 2: ERDF, ESF;
- Objective 3: ESF;
- Objective 4: ESF;
- Objective 5: EAGGF Guidance Section ESF, ERDF.

Moreover, 10% of the structural funds were reserved for Community Initiatives Programmes (CIP).

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- 2. PROGRAMMING: The Structural Funds were implemented within the framework of **multiannual programmes** with a first programming period of five years (1989-1993). Their content was drawn by the national or regional partners and negotiated with the European Commission on the basis of the beneficiary areas.

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- 3. ADDITIONALITY: The Structural Funds were not intended to be utilized as a substitute for national funding, but rather to provide **additional assistance**. The Member States were thus under the obligation to *maintain their public expenditure* at the level of the beginning of the programming period; the Community assistance were subject to the following limits: maximum 75% of total cost and as a general rule; minimum 50% of public expenditure for measures applied in the regions defined for action under Objective 1; or, minimum 25% of public expenditure for measures applied in other regions.

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- 4. PARTNERSHIP: close **consultation** between the different partners (i.e, European Commission, Member States, regional or local authorities concerned) at all the steps in a programme: preparation, negotiation, implementation, monitoring and evaluation.

1994-1999: Doubling the Effort and a New Instrument

- The Treaty of the European Union,[2] which came into force in 1993, states as one of main goal of the Union the "promotion of **balanced and harmonious development** of activities in the whole of the Community, of durable growth [...] of **economic and social cohesion** and solidarity between the member states" (Art. 2), alongside economic and *monetary union* and the single market (Art. 3).

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  - **CIP** are slightly redefined;
  - a **Cohesion Fund** of over 15 billions ecus is introduced to aid less-developed Member **states**, i. e. states with a **per capita GDP below 90%** of EU average, in their effort to attain the convergence criteria that were defined for the introduction of the Monetary Union (only countries in line with the program of convergence to the Monetary Union are indeed eligible). The specific purpose of the Cohesion Fund is to provide financial support for environmental investment projects and for transport infrastructure projects within the *Trans-European Transport Network*.

2000-2006: Enlarging the European Union

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- reduced the number of CIP to four;

2000-2006: Enlarging the European Union

A step towards the simplification of the Cohesion Policy and the preparation for enlargement were the two major themes of the period 2000-2006.

In particular, the 1999 reform:

- merged the previous Objective 2 and 5, as well as 3 and 4 and reduced the number of Structural Funds objectives **from six to three**, that is:
  - **Objective 1**: promoting the development and structural adjustment of regions whose development was lagging behind (i.e. GDP per capita lower than 75% of Community average);
  - **Objective 2**: supporting the economic and social conversion of areas facing structural difficulties;
  - **Objective 3**: supporting the adaptation and modernisation of policies and systems of education, training and employment;
- reduced the number of CIP to four;
- established that the participation in the area of each initiative has to be financed by a single Fund.

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In November 2002 a new financial instrument, the **European Union Solidarity Fund** (EUSF), which is not part of Cohesion Policy, was set up to provide urgent aid to regions suffering major catastrophes.

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While merging the previous Objectives 2 and 3, the 2006 reform transformed the Interreg initiative within a third objective while integrating other CIP into the main stream programmes.

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- **European Territorial Cooperation**: based on the Interreg initiative, support is available for cross-border, transnational and interregional cooperation as well as for networks

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    - of which for Objective 1 regions: 81.5%;
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- Main beneficiary countries: Poland (67.3 billion), Spain (35.2 billion), Italy (28.8 billion), Czech Republic (26.7 billion), Germany (26.3 billion), Hungary (25.3 billion), Portugal (21.5 billion), and Greece (20.4 billion)

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Programming Period	Share of funds on EU GDP	Average *SCF*	St. Dev. of *SCF*
Period I (1989-1993)	0.1568	0.0044	0.0081
Period II (1994-1999)	0.3767	0.0039	0.0066
Period III (2000-2006)	0.2541	0.0039	0.0069

Tabella: Descriptive statistics on Structural and Cohesion Funds in the three programming periods

Objective	Period I (1989-1993)	Period II (1994-1999)	Period III (2000-2006)
1	67.7	64.6	64.4
2	8.74	5.11	13.5
3	-	6.87	-
4	-	1.25	-
3 & 4	10.55	-	-
5	5.60	2.96	-
5a Agr.	-	5.37	2.88
5a Fish.	-	0.88	0.40
5b	-	3.30	3.57
6	-	0.40	-
NL	0	-	
PIM	0.41	-	
2 Init.	-	3.12	0.41
Other Init.	-	1.87	2.57
Cohesion	2.62	9.85	19.17
Total	100	100	100

Tabella: Percentage of commitments of funds according to Objectives. “NL”: New Länder in Germany in Period I; “PIM”: regional program in Period I for regions outside Objective 1; “2 Init.”: regional initiatives similar to Objective 2 for period III “Other Init.”

	Period I (1989-1993)	Period II (1994-1999)	Period III (2000-2006)
All.Obj	35.67	43.35	45.48
Ob. 1	49.90	57.15	55.66
Ob. 2	0	0	1.52
Ob. 3 & 4 & 5	3.26	1.62	-
Ob. 6 & Other	0	23.06	40.95
Cohesion	55.86	81.21	60.74

Tabella: Percentage of total funds given to regions with GDP per worker below 75% of sample mean