The development of EU Regional Transfers

On 27 and 29 March 2012, **Ákos Kengyel**, Professor at the Department of World Economy, Corvinus University of Budapest, presented two open lectures at the Faculty of Political Science “Roberto Ruffilli” in Forlì. The lectures were held in the framework of the Master of Arts in Interdisciplinary Research and Studies on Eastern Europe (MIREES).

The first lecture was entitled **“The Role of EU-level Regional Development Transfers in Catching Up”** and was based on the added value and impact of the EU intervention. Presenting the EU regional policy fundamentals and the importance of transfers, the speaker stressed the key importance of economic convergence as a crucial instrument of integration. According to Professor Kengyel, catching up underlies the legitimacy of the whole integration process. The approximation of different levels of economic development and living standards among regions and countries is not just one policy dimension, but a strategic question of the whole integration. The lecture focused on ways to reach **convergence** and a higher speed of **economic growth** and bridging economic disparities. Drawing on historical experience, the speaker argued that market forces do not automatically result in catching up, which suggests the need for intervention and transfers in order to improve the conditions of catching up, to attract investors to poorer regions and countries.

The guest then presented theoretical considerations of **cohesion policy** aimed at economic growth, arguing that this policy should not be considered a social welfare transfer mechanism, but rather a development transfer mechanism, with mutual benefits and gains for both recipient and donor. As richer countries depend on the speed of economic growth of poorer countries, transfers should not be considered either a sacrifice on the part of richer states, or the redistribution of economic welfare.

The speaker then reviewed the main **fields of intervention**, aimed at attracting investors and assisting local companies and medium-size enterprises. These are physical, transport, communication and environmental infrastructure; human resources (knowledge, labour force skills); education and training (modernization of the educational system, development of the content of education) and research and development, which are crucial for economic competitiveness. In stressing the need for poor regions to attract foreign direct investment the guest argued that transnational companies should be attracted as major actors in a globalized world. Still, the latter are dangerous as they are very flexible and prone to easily change locations according to better economic conditions.

At the end of the introductory part, the speaker elaborated on the experience of **new member states**. The EU Eastern enlargement presented an economic problem for the EU, as for the first time 10 countries with a relatively low level of development joined the EU. The 10 new members had a GDP per capita of exactly 50% of the EU-15 average, while Romania and Bulgaria which joined later were at 1/3 the level of the EU economic development average. While the long-term process of catching up of previous enlargement waves can be considered a success, the story started again with the accession of East European states, and again decades will be needed for catching up. Most of the regions of the new member states are significantly below the level of development of the metropolitan areas of the respective states. Disparities persist even in some of the old member states (in Germany after unification, in Italy and in the UK). In terms of GDP per capita, the relation between the poorest and richest regions is 1:4 times higher in the old member states. On the other hand, some member states show a homogeneous level of economic development (Portugal and the Scandinavian countries).

While big disparities exist at the country level, there are huge disparities at the regional level. The Eurostat data on GDP per capita figures reveal that inner land regions (e.g. Hamburg, Île de France, and Vienna) are at 300-330% of GDP per capita compared to the EU average, while some Romanian and Bulgarian regions are around 25-25% of the EU average, with 10-12 times difference.

The speaker then presented the **historical genesis** of the regulatory background of EU regional policy, recalling that six founding states were at the same level of economic development, with southern Italy considered an internal Italian problem managed by means of the national budget. The developments of the first half of the 1970s reduced the trust in market forces, as a dramatic oil price explosion (up to 13 times higher oil prices in one year), deep recession and structural crisis in poorer and industrial regions revealed the need for transformation, regional structural changes and finally led to the creation of the European Regional Development Fund. Deepening integration led to strengthening **regional policy**, with more liberalization, harmonization of rules, introduction of common regulations and the single market, leading to the Maastricht program of European Monetary Union. The speaker traced the history of EU regional policy from individual regulations and funds to complex regional development strategies and programs, with the first comprehensive reform of regional policy that entered into force in 1989. He presented various programming periods and the legal framework of regional planning, summarizing the intervention priorities supported from the Structural and Cohesion Funds.

The subsequent analysis focused on the **national strategic reference framework** (NSRF, a complex development program strategy of using EU funds), as well as national-level operational programs focused on sectoral issues, competitiveness, human resources, social policies, transport infrastructure and environment, and regional operational programs (Nomenclature of Territorial Units for Statistics, NUTS). The financial flow mechanism from the EU budget was analyzed, with an emphasis on cofinancing coming from the state budget.

Particular attention was paid to the **Agenda 2000**, dealing with budgetary issues of preparations for eastern enlargement. The aspects discussed included the ceiling of the common budget for regional policy for new member states (maximum levels of transfers from structural funds and the cohesion fund), absorption capacity problems in the new member states, institutional and budgetary problems, and equal treatment.

The speaker found a correlation between the level of **education** of the population and absorption capacity, arguing that a higher level of education in CEE compared to that in Greece and Portugal contributed to better absorption. In addition, a more favourable geographical situation (several transit routes to eastern markets), compared to that of Greece or Portugal (located at the end of the continent) further increased the absorption capacity of new member states. Moreover, political transformation generated social and institutional flexibility in Eastern Europe. Unlike Greece and Portugal that had stable institutional backgrounds, the east European member states theoretically could reach a higher level of absorption of structural funds.

Using **empirical figures**, the speaker argued that the absorption capacity and speed of the new member states was not lower than that of the old member states, but was comparable with the figures of the EU-15. All member states were able to fully use the money that was available for the first programming period. According to the speaker the real failure would have been to leave the money partly in the EU budget.

The second lecture **"The Extension of EU Regional Transfers Towards Central and Eastern European Countries"** focused on the institutional and legal aspects of absorption capacity. The speaker analyzed the effects of these interventions in an attempt to assess whether the EU funds contributed to higher economic growth, catching up, modernization of infrastructure and increasing human capital.

Regarding the *added value* of **regional policy** and its positive impact on the development of member states, the speaker presented quantitative and qualitative approaches.

The **quantitative approach** to the added value of the policy is based on measuring figures and drawing conclusions from statistical data. Comparing the EU regional policy budget to Gross National Income (GNI), the speaker concluded that since 2000 levels of regular increase in spending for regional policy have remained at the same level, which has a negative message of no political commitment to spend more in relative terms. He argued that the share of GNI spent on regional policies is not a big sacrifice on the part of richer states, revealing a very low level of redistribution and solidarity. The guest analyzed the regulatory background in relation to equal treatment, revealing differences in the level of transfers over time and financial support per capita among various countries. He summarized the first 2 programming periods and the degrees of GDP growth due to Structural and Cohesion Funds compared to the scenario without transfers. The long-term impact on GDP was found to be 5-10%.

The **qualitative added value** of the EU regional policy is about tangible impacts which are not measured, but are even more important than the quantitative ones. The speaker presented five considerations of importance for the EU-level regulatory framework, cohesion policies and national regional development policies. (1) EU regulations and long-term regional development strategies create stability for potential beneficiaries, with priorities, objectives, and money for 7 years. The EU regulatory framework ended a period of uncertainty in CEE that had lasted since the beginning of transformation, and introduced long-term planning strategies. (2) EU rules foster vertical partnerships between different levels of government, representatives of the Commission, and national and local regional bodies, resulting in a higher level of transparency and better developed coordination. Another obligation stemming from the EU rules is **horizontal cooperation** which implies the involvement of economic and social partners (chambers of commerce, foundations, commercial banks and social partners) in implementation, monitoring and evaluation activities. (3) I EU regulations require preliminary estimations, mid-term and ex-post evaluations of the impact of the programming period implementation. Such indicators as GDP and expenditures provide a clear picture of what should be achieved. (4) Cooperation and exchange of best practices between regions is fostered by the same rules, types of activities, institutions, experience, knowledge and tasks, creating possibilities for launching new joint projects financed by regional development programs and cross-border infrastructural projects. (5) The political added value of transfers to less developed regions creates a positive attitude towards EU integration among citizens, as noted by the head of the Regional Development Committee Danuta Hübner.

The speaker concluded his lecture with remarks about the basic preconditions of successful **absorption capacity** and program implementation. These include efficient institutional frameworks for using EU funds; clear divisions of tasks and responsibilities; skills in preparing good quality programs, projects and applications; long-term sustainability of projects (capability of attracting other resources after the EU funding finishes); and guaranteeing conditions for co-financing. Turning to considerations of the risk of non-absorption, the guest mentioned complex and time-consuming EU procedures, and lack of educated staff on both sides. Referring to the importance of the EU regional policy, Professor Kengyel stressed financial stability as a particularly important qualitative added value. In an international economic and financial crisis situation, incentives for mobilizing additional public and private funds for co-financing are especially relevant. According to Kengyel, thanks to structural funds **structural modernization** is supported, while the final result could be a more competitive national economy and infrastructural development, more competitive structure of production, better structural capacities and performance possibilities. On the other hand, the country should avoid the *rent-seeking mentality* and the risk of becoming a country or region dependent on subsidies.

The **vivid discussion** that ensued saw the active participation of the audience in debating the economic problems of CEE countries.

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