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The Regional Policy of the European Union

as an Engine of Economic Development

gtz German Technical Cooperation

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” If you plan for one year,
plant rice.
If you plan for ten years,
plant trees.
If you plan for 100 years,
educate people.
”

Chinese proverb

To my parents

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Preface

The Regional policy of the European Union is becoming a subject of growing interest among countries which are candidates or potential candidates for full-fledged membership, as preparations in view of the Structural Funds and the Cohesion Fund, which are available only to the member countries, have already been initiated while pre-accession funds are currently being used.

Regions and local communities play a key role in the integration process of the European Union. Most questions of key importance to citizens' lives – utilities, urban planning, environmental protection etc. which are important for economic and social development, are actually regulated at lower levels of management and policy implementation. Over 60 percent of laws in the EU are implemented at a local level.

The Union's principle of subsidiarity respects the requirement that decisions be taken as close to the citizens as possible. This principle is particularly emphasised in the latest EU constitutional document, the Lisbon Treaty. EU membership implies functional and fiscal decentralisation, as well as modern management, multiple partnerships and the responsibility of authorities at all levels. This implies cooperation between regional and local governments, as well as cross-border cooperation at these levels (cross-border cooperation programmes, establishment of cross-border European regions, etc.).

This means that regions and local communities should not merely wait for public administration to move to begin preparations for the EU integration process. Experience in new EU member states shows that the preparations should start simultaneously at all government levels.

During the accession process, Romania and Bulgaria implemented reforms in accordance with EU directives and managed to cut the poverty level in half. After becoming full-fledged EU members and beneficiaries of the Structural and Cohesion Funds, as well as other EU internal programmes, these countries managed to finance some 400,000 projects at a local level alone. This speaks clearly of considerable responsibility placed before lower levels of government to manage numerous projects successfully, many of which are vital for overall development. In this respect the choice of title for this study is fully justifiable: The Regional Policy of the European Union as an Engine of Economic Development.

Though several studies have been carried out, which have examined some important aspects of the EU regional policy, as well as studies of regionalism as a European tradition, this is one of the most useful surveys from the practical point of view. The analysis of the EU regional policy as applied to Serbia is of particular interest, in terms of its territorial planning, overall development, growth of competitiveness, and employment.

The author's hands on administrative experience in using EU assistance to date, the Instrument for Pre-Accession Assistance in particular, which demonstrates the overall logic of the process and the concrete mechanisms which prepare candidate and potential candidate countries for the employment of more complex mechanisms of regional policy, to be available in the future, increases the practical value of the study. Besides being of academic interest, this study is a valuable guide to all who wish to improve their competency in the use of EU assistance at local and regional levels, both in the current and forthcoming stages of Serbia's EU integration.

It is hoped that this valuable study will be followed by further research on EU regional policy and that the experiences of other countries will provide the best practical examples to avoid possible mistakes and make the best use of EU assistance, its funds and programmes. Combining concrete experience and in-depth research, as in this case, doubtlessly contributes to such an outcome.

It is worth noting that clarifying the relationship between regionalism and regionalisation is very helpful; the former is a need to define functional space which carries the potential for development, and at the same time solves the legitimate political, cultural and other aspirations of citizens, while the latter involves the establishment of a necessary lower level in the state territorial organisation, which makes management processes more efficient. Both processes have different manifestations in the EU Member States, depending on constitutional context, historical tradition, and sometimes changes and adjustments made in seeking optimal solutions. Reaching practical solutions is facilitated by more serious study of these issues and could contribute to the initiation of positive political, social and economic dynamics in Serbia, as has been the case in other countries in the neighbourhood, which are now full-fledged members of the EU.

Finally, it is also important to recognize the partner from the NGO sector that has published this study. The European Movement in Serbia already has a long list of valuable publications in the field of European integrations to its credit (European Programmes for Local Communities, Programmes of the European Union, IPA - Instrument for Pre-Accession Assistance, etc.). It testifies the important role of civil society in promoting and also implementing EU policies; this is particularly visible at the local level in the stages of integration which are yet to come.

Jelica Minić

Introduction

"Europe sees its future as striking a balance between competition and cooperation, collectively trying to steer the destiny of the men and women who live in it. Is this easily done? No. Market forces are powerful. If we left things to their own devices, industry would be concentrated in the north and leisure pursuits in the south. But these market forces, powerful though they may seem, do not always pull in the same direction. Man's endeavour and political aspiration is to try to develop a balanced territory." [1]

[1] *Statement made in 1989 by Jacques Delors, president of the European Commission (1985–1995).*

Membership of the European Union is not a must, it is rather a conscious and precisely determined decision made by a country and its citizens that such a choice is in their (national, regional and individual) interest. Membership of the European Union is not a goal *per se*, it is a means instead to achieve a long-term national strategy of efficient economic development aimed at improving the overall living conditions of the population, and therefore it needs to be established by consensus.

The European Union represents an opportunity for stable development and a more peaceful future for Serbia as for every other European country. Particular interests which direct Serbia towards European integration can be identified in the political, economic and social sphere. However, one of the most significant is that the process of EU association and accession enables Serbia to overcome its structural and development problems and creates the conditions for continuous economic development and prosperity of its citizens. Having recognized this opportunity, the Government of the Republic of Serbia has defined accession to the European Union as a strategic orientation, and confirmed this by adopting the National Strategy for EU accession.

The basic policy framework for promoting relations among the Western Balkan countries, therefore Serbia and the European Union as well, is the **Stabilisation and Association Process**. This is a political approach by which the European Union seeks to contribute to a more rapid implementation of the overall political, economic, institutional and legal reforms which are not only preconditions to progress in the association and accession process, but also prerequisites for the transformation and modernisation of Serbia as a society and state.

In this process, the Republic of Serbia, as a potential candidate for membership in the European Union, signed the **Stabilization and Association Agreement** at the meeting of the Council for General Affairs and External Relations of the European Union in Luxembourg, on 29 April 2008. The National Assembly of the Republic of Serbia ratified the Stabilization and Association Agreement and the Interim Trade Agreement on 9 September 2008 (the Law on ratification of the Stabilization and Association Agreement between the European Communities and their Member States, on the one hand, and the Republic of Serbia, on the other, and the Law on ratification of the Interim Agreement on trade and trade issues between the European Community, on the one hand, and the Republic of Serbia, on the other, “Official Gazette of RS”, no. 83/08).

The process of European integration of the Republic of Serbia ran in parallel with the negotiations on this Agreement. The National Assembly adopted the **Resolution on Association with the European Union** in October 2004 (“Official Gazette of RS”, no. 112/04), which underlined membership of the European Union as a strategic orientation for Serbia. The Government adopted the **National Strategy of Serbia on the Accession of Serbia and Montenegro to the European Union** as a foundational reference document for the entire European integration process. This strategy foresees the activities which the Republic of Serbia needs to undertake in all sectors of its society, politics and legislation to be prepared to assume the obligations arising from the membership in the European Union. The Government adopted the **National Programme for Integration of the Republic of Serbia with the European Union** on 9 October 2008. This document is a precise plan of how to meet all the criteria necessary to become a member of the Union, from political and economic, to the most detailed standards which exist in the Union in the areas of trade, agriculture, environmental protection, infrastructure, etc.

Regarding financial assistance, the Federal Republic of Yugoslavia and the European Commission signed a **Framework Agreement** on 25 November 2000, which was ratified on 31 March 2003 (Law on the Ratification of the Framework Agreement between the Federal Republic of Yugoslavia and the European Union – “Official Gazette of Serbia and Montenegro – International contracts”, no. 2/03), making the Republic of Serbia a beneficiary of the **CARDS**[2] programme for the 2000-2006 period. In addition, on 29 November 2007, the Serbian Government and the European Commission signed the **Framework Agreement outlining the conditions of use of the Instruments for Pre-Accession Assistance** in the 2007-2013 period. The aforementioned agreement was ratified by the National Assembly on 26 December 2007 (Law on the Ratification of the Framework Agreement between the Government of the Republic of Serbia and the Commission of European Communities on the Conditions for Cooperation related to the Financial Support of the European Union to the Republic Serbia in the Framework of the Implementation of Assistance according to the Rules of the Instruments for Pre-Accession Assistance, “Official Gazette of RS - International Treaties”, no. 124/2007).

[2] *Community Assistance for Reconstruction, Development and Stabilisation (CARDS).*

By signing the Stabilisation and Association Agreement, the Republic of Serbia has entered a new phase in its relations with the European Union. For the first time relations with the European Union stand on a contractual basis, and Serbia enjoys the benefit of being an associated state. By signing this agreement, Serbia has committed to the gradual harmonisation of its legislation with the **acquis communautaire** of the European Communities, and its consistent implementation. The agreement creates the basis of the overall improvement of political, economic and trade relations, ensures gradual harmonisation of legislation with the Community **acquis** and provides / promotes cooperation in various fields between the contracting parties. Therefore, this Agreement, which associates Serbia with the European Union, should not be viewed merely as a set of rights and obligations, but also as a valid instrument for further implementation, direction and the acceleration of reform. Success in implementing this agreement will certainly determine not only the dynamics of progress towards the European Union, but also the dynamics of reform in Serbia.

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1. The concept of the European Union's regional policy

1.1 Introduction

Region (the term derives from the Latin word *region*) by its definition can indicate an area, county, zone, region, neighbourhood, district, field, space, place, or province. In the context of a specific state, regardless of its size, a region is a defined part of its territory. It has, on the one hand, a set of characteristics which connects it with the whole country, and on the other, a set of other characteristics, which makes it specific.

In this context, let us also mention various supranational dimensions of the concept of region, for example, Western Balkans, South-Eastern Europe, Central and Central-Eastern Europe. The word 'region' is also used for parts of two or more different states which comprise a territorial whole, for example: the Pannonia region includes parts of Hungary, Serbia, Romania, Croatia, Slovakia, Austria, Slovenia, Bosnia and Herzegovina and Ukraine.

In literary language, and even in professional literature, the related terms "regionalism" and "regionalisation" are often intertwined. In addition, the concept of the regional policy of the European Union is often automatically classified under these terms. In the legal-political and sociological sense, these terms do not have identical meanings.

According to the Congress of Local and Regional Authorities of the Council of Europe, the concept of regionalisation can be understood correctly when linked to the institutional side of things, and is, therefore, different from regionalism as a political and ideological movement. Consequently, "**regionalisation** is generally understood as the creation of a new level in state territorial organisation; the establishment of new institutions, which can vary widely with regards to type, responsibility and power, yet always established above the level of existing local institutions. They can be defined in a very flexible manner, and include regions that are only subordinated levels of central government, or, in the narrow sense, an expression where a region is a territorial authority, which can be further differentiated according to its constitutional status (Marcou G.)."[3]

[3] *Jovan Komšić, Principi evropskog regionalizma, 2007, page 13*

According to the Council of Europe study "Regionalisation and its Effects on Local Self-Government" (1998), **regionalism** corresponds to the definition of a region as a corpus of human, cultural, linguistic or other characteristics, which are justifiably transformed into political demands for a greater or lesser degree of autonomy. **Regionalisation i.e. regionalism, is, therefore, the individual choice of each state, i.e. a choice of national regional policy**.

On the other hand, the **European Union's regional policy** is designed to reduce the economic and social differences among the Union's member states by assisting regional development. Consequently, when speaking about EU regional policy, one should bear in mind that it does not only concern regional development in the narrow sense of the word, but includes effort to achieve a correlation at the European Union level by reducing the existing development gap among its regions.

Although there is a difference between the regional policy of the European Union and national regional policies, the regional policy of the European Union allows for the recognition of a regional dimension by national institutions, thereby making the region a sort of common institutional reference point, despite the fact that a common European concept of a "region" still does not exist.

The preamble of the **Treaty of Rome** set out the commitment of the member states of the European Union "to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions" (1958). In accordance with the Article 130a of the **Single European Act** "in order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the various regions and the backwardness of the least-favoured regions" (1986). Although regional dimensions clearly stem from several articles of the constitutive acts, its authors did not establish a clear basis for the development of a single regional policy. There are two reasons behind this approach: First, a general opinion prevailed that "integration was to enable the reduction of regional differences by developing interregional trade" (Vanhove, N. and Klassen, L. H.)[4]. Secondly, "experiences of national regional policies were relatively new in some countries (France, Italy and Germany) and there was no need to duplicate such efforts at the time" (Wallace, H.)[5]

The political nature of EU regional policy emerges clearly from the provisions of the Treaty of Rome and the Single European Act, aimed at bringing the standard of living of all EU citizens closer, but also **showing that the European Union rested on the principle of solidarity among member states**.

[4] *Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, 2009, page 13.*

[5] *Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, 2009, page 13.*

Examining European integration as a process of creating and implementing a single market, one may conclude that restructuring the economy and adopting certain standards implies high costs to individual states. If development requires market integration, free movement of people, removing protectionist barriers, the replacement of national currencies etc., it is reasonable to expect that a particular authority is also responsible for enabling all regions and all citizens of Europe to adapt to these changes, reducing integration costs and avoiding risks. This is precisely the reason why the Union was in need of a joint policy, which would enable member states and their citizens to benefit from a single market and currency. As Jacques Delors stated: "The community, which is on the verge of being transformed into the Union, is knowingly accepted by the citizens of Europe ... not simply to unite people, but to represent the foundation of society."[6]

[6] *Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, April 2009, page 16.*

However, in addition to purely political reasons there are also **reasons of an economic nature, which justify the existence of the EU regional policy**.

"There are also very important arguments coming from economic integration theory and growth theory which can be used to justify EU regional policy. First, let us look at European integration in the sense that it established a common market with the Single Market Programme 1992. Integration theory offers two major approaches to draw conclusions about the impact on income convergence. In the sense of the classical trade theory and the customs union theory (Wiener 1950), market integration would lead to better allocation of resources and specialization which would benefit all partners, although not necessarily to the same extent. Also, does specialization require restructuring - which can be a heavy temporal burden? New trade theory, in contrast, assuming monopolistic competition and innovation based on product differentiation, suggests that rich countries are likely to draw more benefits from integration. Thus, from the perspective of trade theory, poor EU members may not be able to improve their income position vis-à-vis rich members.

Recent literature (Krugman 1991) also suggests that the rich core in the EU would first gain more from integration than the periphery, due to agglomeration advantages. This pattern will only be reversed with very low trade barriers and a cost advantage of the periphery that balances the agglomeration advantage of the core. Finally, growth theory also provides no explicit argument for income convergence. From the perspective of neoclassical growth theory (Solow 1956, Barro and Sala-i-Martin 1995), income convergence is an automatic process if technology is free and capital mobile, due to higher rents in poor regions. New growth theory (Romer 1990, Aghion/Howitt 1992), in contrast, argues that rich regions can enjoy a continuous growth bonus through the generation of technological advance, which is based on their better human capital endowment."[7]

[7] *Europainstit Vienna, EU Regional Policy, Experiences and Future Concerns, 2004, page 10.*

In summary, therefore, neither trade theory nor growth theory offer an explicit convergence argument. It is rather the case that market integration may, in the short term, lead to particular adjustment difficulties in poor regions and that long term gains can only be reached from improvements in location factors (education, infrastructures). These considerations led the European Union to create and shape EU regional policy.

The existence of EU regional policy and the process of European integration can also be justified within the terms of **political economy**. In this respect, integration is understood as a general good, but it is also recognized that different member states, rich and poor, have different political goals if their economic development levels differ. Cohesion policy aims at creating homogeneous political interests, which are a prerequisite for general economic integration. "Additional economic arguments for the existence of an EU regional policy are reflected in the reality of the European Monetary Union, where different levels of development of individual member states would cause different levels of living standards, failure to fulfil certain criteria and unsynchronized moves which would seriously endanger the existence of the monetary union (Mundell, 1961)."[8]

[8] *Europainstit Vienna, EU Regional Policy, Experiences and Future Concerns, 2004, page 11.*

Another argument related to EU regional policy stems from **the need to avoid migrations**, which results, among other things, from unbalanced development. Rich member states were and still are exposed to massive migrations of population from poorer member states under the umbrella of free movement of labour among member states. To prevent this scenario, decision makers in the European Union supported the idea of a common regional policy which would support balanced development of territories and thus prevent migratory flows.

Finally, it should be noted that EU regional policy **does not bring benefits only for the beneficiaries of the Structural Funds and the Cohesion Fund, but also profits those who pay most** for this policy. The implementation of programmes and projects, financed from the Structural Funds and the Cohesion Fund, largely consists of products originating from the rich member states. For example, "in Portugal and Greece approximately 40 percent of products, used for the implementation of specific investment projects, come from rich member states (Hall, 2003)."[9]

[9] *Europainstit Vienna, EU Regional Policy, Experiences and Future Concerns, 2004, page 11.*

In short, one can say that the European Union created its regional policy to ensure the economic perspectives of all member states of the Union and to prevent unbalanced development from threatening the European integration "project". Support to less developed parts of the Union, in other words, cohesion strengthening, was set as an objective of regional policy. This has been partly achieved, but there are those who critically observe EU regional policy and claim that it has not achieved its goal and is merely a central mechanism for redistribution of funds to poorer regions.

The terms **regional policy** and **cohesion policy are used side by side** and both refer to a policy aimed at solidarity and the reduction of differences that have always existed, and have deepened after the creation of the Single Market, the single currency, EU enlargements and the implementation of other EU common policies. This policy is financed from the General budget of the European Union and takes a third of the total EU budget.

EU Regional Policy is the most important instrument for achieving so-called cohesion and implies adjusting to new developments, large-scale restructuring (infrastructure development, reducing unemployment, stimulating industry and all forms of economic activity) to improve competitiveness of local economies and, thus, balance disparities in the development of EU regions.

In conclusion, I believe another important clarification is necessary. Social reasons to safeguard the single market and currency are not the issue here. This is more about politics, with its history, form, plans, quality, results, evaluations and continuity. Would anyone care about these details if they concerned only social redirection of funds to regions that fall under certain categories?

1.2 Development of EU regional policy

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity"[10] The development of a common regional policy of the European Union can be divided into five time phases.

[10] *Statement of Robert Schuman from 1950 (one of the founders of the EU)*

The first phase is the period from **the outset in 1958 until 1975**. During this period there was no explicit or implicit version of a common regional policy. The six founding countries of the European Economic Community were relatively homogeneous in 1958, with the exception of southern Italy. This imbalance of southern Italy compared to the rest of the Community was recognized in the Protocol on the Mezzogiorno, which was added to the Treaty of Rome, which established the European Community in 1957, and was ratified in 1958. Article 2 of the Treaty of Rome set out the principles, which underlie the European

Economic Community; one of the principles "promotes, through the Community, a harmonious, balanced and sustainable development of economic activities..." The preamble goes even further, as it speaks of "reducing the differences existing between the various regions". However, the Treaty says little regarding the instruments necessary to achieve a harmonious and balanced development. Several exceptions, the weakness of the available tools, and the absence of a chapter on regional policy in the Treaty, all show that the founders of the European Economic Community left individual governments and "the invisible hand" of the market to solve the problem, despite the fact that the existence of differences was recognized. The first two Structural Funds were established in 1958: the European Social Fund (ESF) and the European Agricultural Guidance and Guarantees Fund (EAGGF), with the aim of assisting the implementation of common policies. As for regional policy, a first communication was issued by the European Commission in 1965, followed by the establishment of the Directorate General for Regional Policy in 1968. In 1972 in Paris, the heads of states and governments adopted a conclusion in which regional policy was described as "a key factor in strengthening the Community."

In the second phase, covering the period **from 1975 to 1986**, a common regional policy started taking shape. The development of regional policy was the Community's response to the deterioration of the global economic situation, caused by the first oil crisis in 1973, which ended the "golden age" of the European economy. This was also a response to the first enlargement, which occurred in the same year. Awareness of the complexity of the problem forced member states to take certain steps. With the first enlargement, three new members (the United Kingdom, Ireland and Denmark) brought their own structural problems and experiences in solving problems of regional development (especially in the cases of Ireland and Great Britain, the latter was the first European country to adopt its own regional policy in 1928). The European Regional Development Fund (ERDF) was established in 1975. The accession of Greece in 1981, followed by Spain and Portugal in 1986, increased the need for common regional policy. A new qualitative approach to regional inequalities was taken in 1985, with the launch of the Integrated Mediterranean Programmes. These programmes were established in 1982 following the Greek request for greater financial assistance. The aim of the Integrated Mediterranean Programmes was to support the Mediterranean areas of France, southern Italy and, in particular, the whole of Greece, to assist the development of tourism, agriculture and small and medium enterprises in these regions. Although like the rest of regional policy, these programmes came as a result of tough political efforts and negotiations. They represent an important step in its implementation. Another major step forward was the decision to finance mid-term development programmes, and no longer individual projects, evaluated "case by case" as had been the practice before.

The third phase covers the period **from 1986 to the end of 1999.** The Single European Act, adopted in 1986 with the aim of adjusting to the changes in the European Union after enlargement and preparing the ground for the completion of the single market project, determined the basis of cohesion policy. This problem appeared for the first time in the Single European Act under a separate heading, dealing with regional policy. A new XIV heading was introduced, with its articles 130 a-d (now it is heading XVII, articles 158-162), "Economic and Social Cohesion". This was the first attempt to link the objectives of Article 2 of the Treaty on the European Union's "harmonious, balanced and sustainable development" with regional policy instruments. This period was characterised by changes brought about in Delors' first package between 1989 to 1993, the first reform of the Structural Funds, which doubled these funds in real value, reaching 25 percent of the EU budget in 1992, and establishing the principles for the management of structural operations and defining goals and standards, necessary for regions to access these funds. The principle of Partnership was also established in this period. Moreover, two major changes were made in 1992: changes in the Structural Funds (an increase of the funds available, revision of the goals defining beneficiaries, the establishment of a new structural fund and the Committee of Regions) and the establishment of the Cohesion Fund. Further innovations were introduced, such as a greater role given to other institutions of the European Union, then the European Parliament, and new rules for the evaluation and visibility of programmes and projects.

The second reform of the Structural Funds, which involved the simplification of the rules and principles of the cohesion policy, and preparations for further enlargements, marked the **fourth phase, 2000 to 2006**. The Agenda 2000 was under preparation from the second half of the nineties and paved the way to the greatest enlargement of the European Union, which took place in May 2004, when 10 countries joined the Union. This historic enlargement increased the population of the European Union by 20 percent, while gross domestic product (hereinafter GDP) was increased by only 5 percent. With this enlargement, differences in per capita income widened and the unemployment rate increased. New member states automatically qualified under all the objectives of the Structural Funds and the Cohesion Fund. However, pre-accession instruments were available to those countries even during the association process in order to prepare them to implement the cohesion policy. In accordance with the decision of the European Council, in March 1999, the budget allocated for the cohesion policy implementation for the financial period 2000 - 2006 amounted to €213 billion for 15 member states. An additional allocation of €22 billion was reserved for the new member states in 2004 - 2006. Moreover, economic development, employment and innovations were recognized as the foundations of the Lisbon strategy in 2000.

In **the fifth phase**, including the current period **2007 - 2013**, the poorest member states and regions received the largest budget share ever allocated, with priority focused on rapid economic development, job creation and innovation. The European Council in December 2005 allocated €347 billion through the Structural Funds and the Cohesion Fund, with 81.5 percent reserved for regions that fall under the convergence objective. Thanks to simplified procedures, nearly all of the 436 programmes, which include all regions and member states, were harmonized before the end of 2007. Another novelty was also the increase of funds earmarked for the environment and the fight against climate change.

1.3 The institutional framework of EU regional policy

Like any other common policy of the European Union, in implementing regional policy each EU institutions has a clearly defined role.

The European Commission has a key role in regional policy implementation. It approves strategic programmes, monitors their implementation, participates in the preparation of programme documents, and supervises the implementation and use of approved funds. The European Commission represents the interests of the European Union as a whole and all its citizens. Besides being the institution which initiates and proposes the distribution of funds within six-year programming periods, the Commission also approves the financing of programmes designed by the member states within the framework of funds allocated by the Council o f Ministers. The Commission presents a Cohesion Report every three years[11], while the funds for regional policy implementation are managed by its Directorates General (the Directorate General for Regional Policy, the Directorate General for Employment and Social Issues, etc.) and specialised directorates within the General Directorates (the Directorate for Policy Development, the Directorate for Policy Coordination, etc.).

[11] *To date, the European Commission has published five reports*

The body with the highest level of decisional power is **the Council of Ministers**. The Council of Ministers is responsible for final decisions on most of the legal regulations, concludes treaties with foreign countries and, together with the Parliament, decides on the budget of the Union. It is made up of representatives of the member states, invested with the authority to make commitments on behalf of his/her government. The Council consists of the competent ministers of the member states who meet depending on the issue in question; therefore, the composition of the Council is variable. Decisions are made by simple majority, when other types of voting are not envisaged by the procedure, although special procedures stipulate that the decisions are usually made by a qualified majority, if not unanimously. Nevertheless, member states make efforts to reach decisions by consensus on the most important issues, knowing that next time they themselves could be outvoted on matters of particular importance to them.

The European Council comprises the heads of states or governments of member states, ministers of foreign affairs, the President of the Commission and the High Representative of the Union for Foreign Affairs. From a purely legal point of view, the European Council is not an official body of the Union, but emerged from occasional meetings of the heads of states and governments in 1974, when it was decided that these meetings should become regular. The European Council obtained its legal status in 1986, when it was officially specified in the Single European Act. Even today, the Treaty on the European Union determines the role and importance of the European Council very roughly, describing it as a body which gives the necessary incentive for development and general political guidelines to the Union. However, it is very difficult to codify the work of this body, which consists of the leading figures of the member states. A free interpretation could be that the European Council makes the most important strategic decisions, which are then developed and transformed into legally binding acts and further implemented by other EU bodies. Primarily, the European Council makes political, not legal decisions and, therefore, does not appear as a legislative body, although its decisions have far-reaching consequences. It is important to make a distinction between the European Council and the Council of the European Union (consisting of ministers of a given competency), and even more so from the Council of Europe, which is a separate European organisation, representing all European countries except Belarus.

The European Parliament is the body of the Union with the largest democratic character and legitimacy, as it represents the citizens of the Union who have elected its members in direct and democratic elections every 5 years since 1979. The European Parliament participates in the decision making process, approves the tasks, goals, organisation of the Structural Funds, and the manner of implementation of its decisions and gives advice on the initiatives proposed by the Commission. The members of the Parliament represent the citizens of the Union and their own political parties, and are, therefore, not distributed according to their nationality, but their party affiliation.

Alongside these institutions, which participate in the implementation of all EU policies, there are also institutions established to represent regional and local interests at a Union level.

The Council of European Municipalities was established in 1951 in Geneva, and changed its name to **the Council of European Municipalities and Regions** in 1984. Today, the Council comprises more than 100,000 local and regional authorities from 29 European countries, whether members of the Council directly or through 42 large national associations of local and regional authorities. The highest authority of the Council is the Assembly of Delegates, which elects a number of representatives from each country to the Political Committee. It also elects the President, the Vice Presidents, the General Secretary and the members of the Executive Bureau. These statutory bodies determine the political position of the Council regarding the European integration processes and, in particular, the representation of local authorities before official European institutions to defend their interests in the best possible way. They define the activities to be undertaken in this context. The Council supports initiatives of all national sections and their members who wish to establish closer ties with two or more other European local communities. The Council encourages inter-regional and inter-municipal cooperation by supporting local and regional authorities in their search for funds associated with EU programmes.

The Assembly of European Regions was established in 1985 with headquarters in Strasbourg. It represents over 300 European regions, including those outside the European Union. The main task of the Assembly is to increase the region's political influence within the European institutions, and to promote inter-regional cooperation. On the initiative of the Assembly in 1993, the Treaty establishing the European Community was modified to include the principle of subsidiarity and establish an advisory committee of regions.

The Committee of the Regions was established by the Maastricht Treaty in 1992. It consists of representatives of local and regional authorities. The headquarters of the Committee of the Regions is in Brussels. Countries have a quota ranging from 5 to 24 members, depending on their size. Candidate Countries have an observer status in the Committee. It is an advisory body and must be consulted before decisions concerning regional and local authorities are made in the European Union regarding regional policy, environment, culture, education and transport. In addition, the Commission, Council and European Parliament may consult the Committee of the Regions on other issues. The members of the Committee are nominated by their national governments and appointed by the Council of the European Union for a period of four years and their mandates can be renewed.

Alongside these institutions, over 200 regional offices operate in Brussels to cooperate in a more direct way with the institutions of the European Union with the aim of communicating specific regional interests.

On the other hand, each country has its own specific national structure, which differ from state to state, responsible for the implementation of EU regional policy.

1.4 Region in the context of EU regional policy

Nowadays, the phenomenon of regions and the issue of regionalisation, which fall under the concept of EU regional policy, have become so popular that their different characteristics are being ignored. On the one hand, "the institution of the region is completely absent from the legal systems and institutions of many countries, while other countries introduce concepts that differ so widely that it seems impossible to define them under the same category".[12]

On the other hand, what is common to all EU member states is the European concept of region in terms of EU regional policy, created with the aim of planning and implementing development policies.

[12] *Jovan Komšić, Principi evropskog regionalizma, 2007, page 124.*

Prior to joining the European Union, a candidate country is required to define appropriate statistical territorial units according to the classification applied by the European Union. The classification of statistical regions is determined according to the **NUTS methodology** (fr. *Nomenclature des unités territoriales statistiques* - NUTS, hereinafter referred to as NUTS), stipulated in Regulation (EC) no. 1059/2003 of the European Parliament and the Council decision on the establishment of a common classification of territorial units for statistics (NUTS). After joining the EU, the statistical classification is officially accepted as the NUTS regions of the new member state. In accordance with the aforementioned Regulation, member states can not change that classification over the following three years.

The current territorial classification of each member state establishes three basic levels, NUTS I, NUTS II and NUTS III.

Each territorial unit of the NUTS classification has a specific code and name, so that territorial units at the same level in one country cannot be labelled by the same name. The home state code is also included when territorial units in two or more countries have the same name.

The first criterion in determining the NUTS classification is the existing administrative units on the territory. If there are no appropriate administrative units for a particular NUTS level, the NUTS level is constituted by merging a required number of smaller territorial units, while taking into account other relevant criteria such as geographic, socio-economic, historical and geopolitical circumstances, cultural and natural characteristics.

The NUTS category, to which an administrative unit is assigned, is determined by the number of inhabitants.

Category	Minimum number of inhabitants	Maximum number of inhabitants
NUTS I	3.000.000	7.000.000
NUTS II	800.000	3.000.000
NUTS III	150.000	800.000

Table 1. Standards of NUTS classification of Regions.

The European Commission established the NUTS classification as a basic criterion for measuring development levels. According to some authors, this criterion is not appropriate for two reasons: "First, almost all NUTS3 regions are neither "reasonably large" nor have a "reasonably heterogeneous" endowment of factors, to justify treating them as independent economic areas. Second, while some NUTS2 regions are very large and with a broad endowment of productive factors (e.g. Andalusia in Spain, Aquitaine in France, Lombardy and Sicily in Italy, with populations ranging from 7 to 11 million people), others are extremely small and have an extremely narrow set of available resources (Molise and Vale d'Aosta in Italy, La Rioja and Cantabria in Spain, which have populations ranging between 100 and 200 thousand). Expecting common growth performances across units that are so different in their underlying potential, violates common sense, if not basic economic theory."[13]

[13] *Fabio Canova, Are EU Policies Fostering Growth and Reducing Regional Inequalities, maj 2001. godine.*

Mr Canova is undoubtedly right in asserting that regions, both at the NUTS II and NUTS III levels, differ regarding features such as infrastructure, development and education, etc. and have various advantages as well as problems which affect their development. However, the question that remains is how to find a common denominator which can serve as a starting point in examining all these differences. Bearing in mind that the EU consists of 27 member states with systems which range from unitary states to federations, with stronger or weaker regions, and 490 million inhabitants, it is necessary to establish common denominators for mutual comparison, such as the nomenclature of territorial statistical units (NUTS). Despite the assertions of some authors, I feel these basic parameters derived from the NUTS classifications and GDP per capita provide the necessary results, in terms of data for measuring (under)development levels that are credible, uniform and regularly updated. To obtain an objective view of the development levels of a given region, other development indicators need to be considered. It should be noted that the critics of the existing method do not provide any alternative solutions which have the support of all member states.

The NUTS classification should be seen as a common denominator for the collection, processing, analysis and dissemination of high quality, timely and unbiased statistical data and information, collected at the level of territorially consolidated parts (regions), with a set of characteristics which make it specific to obtaining an objective picture of a region's real development.

Based on data collected in this manner, it is easier to have a foundation for decision-making or further analysis. Within the context of European integration, based on such statistics from criteria common to the whole Union, it is possible to define EU areas eligible for the implementation of EU regional policy instruments. Finally, in this context, one should not forget that producing statistical data i.e. collecting, processing and analysing, needs to be based on well developed methodology and standards.

The Croatian Experience

In Croatia, the process of determining regions at NUTS II level lasted for several years. The Croatian Bureau of Statistics submitted the first proposal to Eurostat in March 2003. The process of defining NUTS regions in Croatia was undertaken by a small circle of experts, with almost no broader discussion on the subject[14].

[14] *Interview with Florian Hauser, Head of cross-border cooperation support project with the Ministry of Finance, 2009.*

Date	Central Bureau of Statistics proposals	Consequences
March 2003	**Five statistical regions:** **Central:** more than 1,5 million inhabitants **North:** 570.000 inhabitants **East:** 891.000 inhabitants **West:** 566.000 inhabitants **South:** 861.000 inhabitants	Eurostat refused the proposal, since two regions out of five had less inhabitants than the minimum defined by NUTS II (the minimum is 800.000 inhabitants)
April 2005	**Four statistical regions:** **East:** 891.259 inhabitants **Central:** 1.030.252 inhabitants **Zagreb:** 1.088.841 inhabitants **Adriatic:** 1.427.008 inhabitants	Eurostat accepted this proposal. The Croatian Parliament refused it, based on the fact that groupings of less developed areas into the same region as the capital might threaten the development of these smaller areas
July 2005	**Three statistical regions:** Adriatic, Continental and the city of Zagreb	Eurostat refused this proposal based on the fact that the city of Zagreb does not have a sufficient number of inhabitants
June 2006	**Two statistical regions:** Adriatic and Continental	This proposal was acceptable for Eurostat, but was criticized by the General Directorate for Regional Policy (DG Regio)
March April 2007	**Three statistical regions:** Adriatic (6 areas), Central (5 areas plus the city of Zagreb), Pannonian (8 areas)	The Government accepted this proposal. Representatives from the north of Croatia, i.e. the areas which were grouped with the city of Zagreb, were against this proposal

Table 2. The outcomes of different proposals for NUTS classifications in Croatia

The definition of NUTS 2 regions in Croatia was characterised by a technocratic approach. It was presumed that it was possible to find a quick solution to regional classification among numerous other political issues. Although the establishment of the NUTS regions was an obligation stemming from the Stabilisation and Association Agreement, Croatia was still able to draw on lessons learnt from new member states (e.g. Slovenia too, had much tough discussion on this issue). The establishment of regions is not something can be achieved over night and there is sufficient time to debate it thoroughly. However, it should be noted that the reaction of the European Commission was somewhat awkward (e.g. the Directorate General for Regional Policy was included in this debate rather late).

Looking at the experience of other countries we can conclude that in debates on establishing the NUTS regions, some participants see real needs and development opportunities for their country, others identify political dangers to territorial integrity, while a third group finds in the NUTS classification a basis for the separation of regions based on social and territorial principles, i.e. separatism.

In my opinion, the conclusion stands that the NUTS regions are statistical-economic regions, the basis for planning and implementing EU regional development policy, and that the NUTS classification fully supports countries' integrity. Data collected at this level contributes to the satisfaction of the general and common needs of the population of a given region, whether it be the construction of roads, schools, hospitals, cultural institutions or anything concerning regional progress and the improvement of citizens' living conditions. In this way a region can avail of opportunities to meet its general needs, yet keeping in line with more general interests expressed at state level.

1.5 Differences among regions in the European Union

Based on Eurostat statistics, the European Commission assesses regional differences in its periodic reports. Statistical data are collected at the NUTS I, II and III administrative levels, according to the Nomenclature of territorial statistical units, which is the basis used to identify regions lagging in development and/or facing problems in certain fields. Data collected in this way are used in Structural Funds allocations. This part of the study will focus only on basic differences among regions.[15]

[15] *Source of all data: Eurostat*

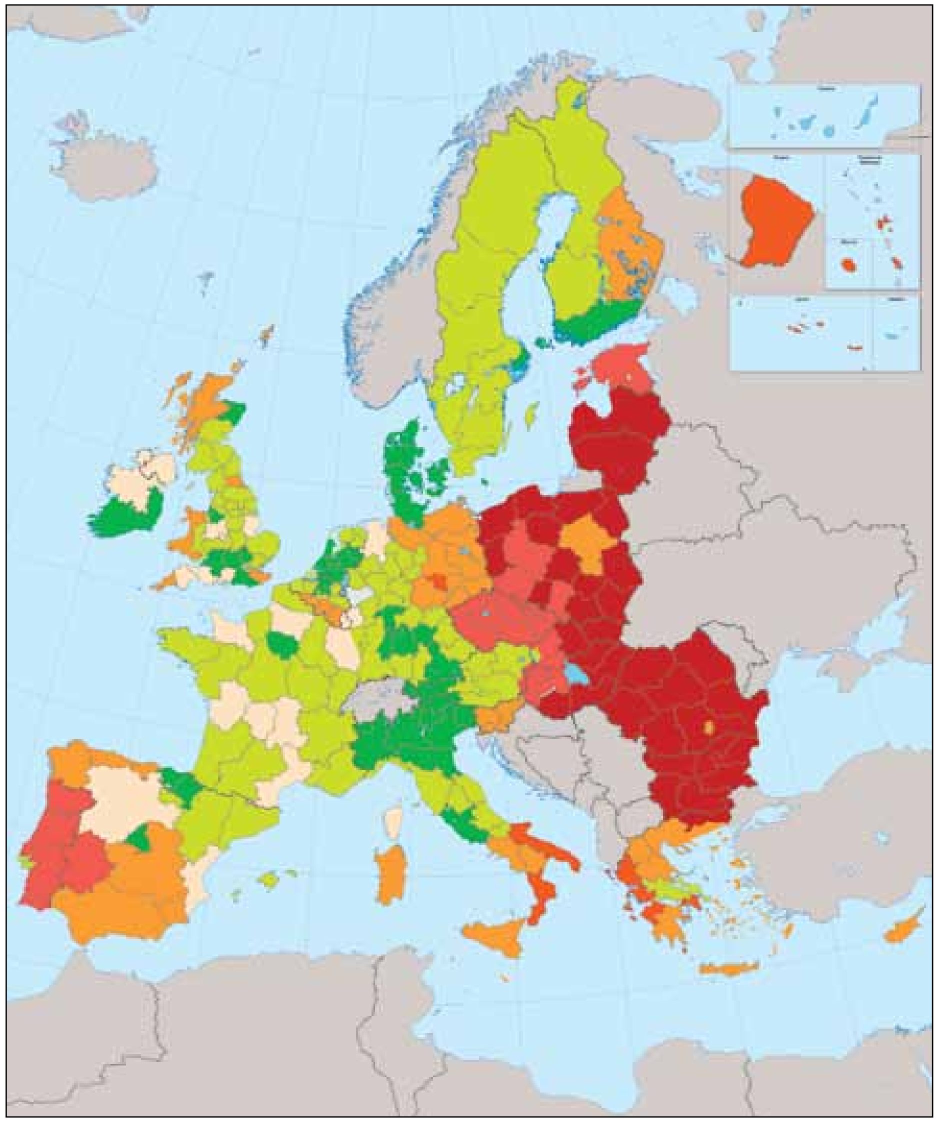
From the outset, regional policy has been based on the assumption that regions in the centre of the Union are at an advantage compared to those on the periphery. Such differences have widened further with the successive accession of new member states. At the launch of a particular version of the common regional policy, in 1975, the greatest difference between the regions was at 7:1, between the city of Hamburg in West Germany and the area of Calabria in the south of Italy.[16] Differences became particularly visible after the accession of Greece (1981), Spain and Portugal (1986), while German reunification (1989) brought in another substantial area (former East Germany) with significant economic and structural problems. In the 15 members European Union, the areas lagging behind the most in economic terms were the south of Italy, parts of Ireland, Greece, Spain and Portugal, Corsica, Sardinia, the French overseas departments and remote Spanish and Portuguese islands.

[16] *It is interesting that similar relations also existed on the level of former Yugoslavia between the Republic of Slovenia and the Autonomous Province of Kosovo and Metohija.*

Before the enlargement of the European Union in 2004, 68 million inhabitants or 18 percent of the total population lived in regions with an income below 75 percent of the EU average. Regional differences have widened after the EU was enlarged to 25 countries (1 May 2004), since the population in such regions increased to 116 million, in other words 25 percent of the total population, and following the enlargement to 27 member states (1 January 2007), this segment of the population reached about 145 million, just short of 30 percent of the entire population of the European Union. With this last enlargement, the EU territory increased by 8.6 percent and the population by 6.3 percent - somewhat similar to when Austria, Finland and Sweden joined in the mid nineties - but GDP per capita at purchasing power parity only by 1 percent, which is lower than was the case of previous enlargement. The GDP per capita in Bulgaria is 35 percent of the EU average, and in the case of Romania it is 38 percent. The accession of these two states has reduced the average EU GDP per capita by about 4 percent. Research estimates that it will take about 20 years for these two countries to reach the average EU GDP per capita of 75 percent.

According to the Eurostat report from 2008, in the north-eastern regions of the EU the population is decreasing. This problem is especially visible in Germany, Poland, the Czech Republic, Slovakia, Hungary, Romania, Bulgaria, the Baltic countries and partly also in Sweden and Finland. A trend of increased population growth was recorded instead in Ireland, France and the Benelux countries.

The average GDP per capita ranges from 24 percent of the EU27 average in north-eastern Romania to 303 percent of the EU27 average in London, i.e. 12.5:1. Luxembourg with 264 percent and Brussels with 241 percent are in second and third place, while Hamburg with 202 percent and Vienna with 178 percent take the third and fourth place in the list of developed regions. The most developed regions are located in southern Germany, southern Great Britain, northern Italy and Belgium, Luxembourg, the Netherlands, Ireland and Scandinavia. The capital cities Madrid, Paris and Prague also fall into this category. On the other hand, economically, the most underdeveloped regions are regions



Map 1. Average GDP per capita and purchase power parity of the EU27 in 2003

at the southern and western periphery of the European Union, eastern Germany and new member states. It should be noted that there are large differences in regional development within the member states. The widest regional differences have been recorded in the UK, Slovakia and France, and the narrowest in Ireland and Slovenia.

The central part of Europe, particularly certain regions of Germany, Austria and the Czech Republic, is characterised by high employment rate, as are regions of northern Europe, Great Britain and the Netherlands. A high unemployment rate, instead, was

recorded in north-eastern regions, in Poland, eastern Germany and eastern Slovakia, as well as in some regions in France, Hungary, Greece, the Czech Republic and Spain.

Among the new member states, the largest wage increase has been registered in the Baltic states and Romania, followed by Bulgaria, Poland, Slovakia and the Czech Republic. On the other hand, the lowest minimum income in 2008 was registered in Bulgaria (€112), Romania (€137), Latvia (€228), Lithuania (€232), while the highest minimum was in Luxembourg (€1,610), Ireland (€1,462), the Netherlands and France (more than €1,300) and Britain (€1,148). The greatest gender disparity was recorded in Estonia where women's salaries were up to 25% lower than men's.

Based on the figures illustrating the levels of development in the regions of the European Union (i.e. differences among regions and within them), one can conclude that the EU is in need of a common policy which would, with the instruments for its implementation, provide incentives for the development of regions that are lagging behind, revive industrial areas, modernize roads, assist environment protection, and support the young and unemployed for a longer period while they seek jobs.

1.6 Implementation of EU regional policy

From the outset, in 1975, regional policy played a dual role in European policy. While it was supposed to promote regional development, at the same time it was also expected to provide additional financial support to member states which were not in favour of deeper integration or greater enlargement. Some authors[17] argue that the latter, the role of regional policy as a source of additional funds, is its primary purpose. There are strong arguments in favour of this opinion, especially if one analyses the steps of regional policy evolution. Each step towards further integration was accompanied in an appropriate way by greater regional distribution. This dichotomy makes defining the general character of regional policy more difficult, but in my opinion both roles (cohesion and additional funds) work together like engines, pushing the integration process forward and making it what it is.

[17] *Hooghe, L. (ed.), Cohesion Policy and European Integration: Building a Multi-Level Governance, Oxford University Press, Oxford, 1996; Rumford, C. European Cohesion Contradictions in EU Integration, Antony Rowe Ltd., Chippenham, 2000.*

Zsuzsanna Tron, in her study "The need for regional policy" states: "The European Union, as a form of integration, is simply expected to contribute to economic development through the single market and monetary union. In my opinion, removing trade and other barriers and encouraging positive economic effects will enable funds to find their way to the most profitable projects. However, it should be noted that the benefit of these projects is not evenly distributed among all the players on the European single market. It was clear, especially during the seventies, that new member states would benefit, in a way, but often also bear the costs of the integration process. Consequently, the profit inequities could induce economically favourable structural changes (i.e. related to matters of location and components) based on presumed diverse macroeconomic conditions, i.e. prospering markets and a free flow of factors. But if the conditions are not given (or too short a time is available to make structural adjustment) structural changes will yield different results in the economies in question. In the EU, supranational integration, a remedy for emerging social problems, is expected to draw its resources from the common budget." [18]

[18] *Zsuzsanna Tron, Need for regional policy, 2006, page 11.*

Structural Funds and the Cohesion Fund are "the engines" driving the economic and social cohesion policy of the European Union and are available only to Union member states. These resources are used to reduce differences in development between regions of the Union and to reduce the disparities in the living standards of their inhabitants.

This chapter provides an overview of the characteristics of the 2000-2006 financial period, the aims and instruments for the 2007-2013 period and the principles behind Structural Funds and Cohesion Fund.

The 2000-2006 period

Between 2000 and 2006, the total sum destined for **Structural Funds amounted to €213 billion**, €18 billion were disbursed over the same period for the **Cohesion Fund**, €26.5 billion for pre-accession assistance (PHARE, ISPA, SAPARD and CARDS), and about €40 billion for assistance to the new member states following accession (1 May 2004).

In this period, the following **Structural Funds** were available for development policy funding[19]:

[19] *Group of authors, Upravljanje fondovima Evropske unije, European Project Center with Novi Sad Business Academy, 2008.*

- **The European Regional Development Fund** (hereinafter referred to as ERDF), aimed at eliminating regional imbalances and promoting stable and sustainable development;
- **The European Social Fund** (hereinafter referred to as ESF), aimed at the development of human resources and employment;
- **The Financial Instrument for Fisheries Guidance** (hereinafter referred to as FIFG), aimed at achieving balanced resource management and competitive structures;
- **The European Agricultural Guidance and Guarantees Fund** (hereinafter referred to as EAGGF), aimed at supporting the Common Agricultural Policy and improving agricultural structures and rural development.

The role of the **Cohesion Fund** is similar to the role of the Structural Funds, but the original reason behind its establishment was the adjustment of national economies in countries which had decided to introduce the common currency (fulfilling the so-called convergence criteria) and, to some extent, to ease the pressure on the budgets of poorer member states. Projects in the field of environmental protection and the development of transport infrastructure, especially the construction of infrastructures connecting more member states, were financed from this fund. The main difference when compared to the Structural Funds, lies in the fact that funds are allocated based on the development level of member states, and not on regions. A key criterion for allocating assistance is GDP per capita lower than 90 percent of the EU average.

In the 2000-2006 period three objectives were defined to strengthen economic and social cohesion within the European Union:

Objective 1 (territorial): the development and structural adjustment of regions where development was lagging behind (regions with GDP per capita lower than 75 percent of the EU average, remote areas and the coast of Sweden). In the 2000-2006 period this objective involved about 50 regions and about 22 percent of the population of the European Union. These were regions usually about NUTS II size, in which several indicators of underdevelopment were present (low levels of investment, high unemployment, shortages in the service sector, and weak infrastructure). Regions covered by Objective 1 in this programming period were located in southern Italy, the midland and border regions of Ireland, Portugal (except the capital), most parts of Spain, Greece and Eastern Germany. Funds for this purpose were used from all four funds.

Objective 2 (territorial): the economic and social conversion of areas facing structural difficulties. Regions covered by Objective 2 were located in Great Britain, France, Spain, Italy, Finland and Austria. Assistance was drawn from from the ERDF and the ESF.

Objective 3 (thematic): referred to the adaptation and modernisation of national policies and systems of education, training and employment. It took the European Employment Strategy into account and was used as a reference framework for all measures promoting human resources. Programmes and projects were financed from the ESF and were not directed at specific regions.

In addition to these objectives, there were **some Community initiatives** in the 2000-2006 period:

- **INTERREG**, which included cross-border cooperation, trans-national cooperation and interregional cooperation, financed from the ERDF;
- **LEADER**, which included rural development, financed from the EAGGF;

- **URBAN**, which included the economic and social revival of urban areas, financed from the ERDF;
- **EQUAL**, which covered the fight against discrimination and inequality in the labour market, financed from the ESF.

The 2007-2013 period

For the 2007-2013 period, the approach which has been chosen is of a more strategic nature than before. Now, there is a clear connection between cohesion policy and strategies from Lisbon[20] and Gothenburg[21]. Cohesion policy largely contributes to achieving the objectives of these strategies. Development and cohesion are mutually supportive. By reducing economic and social differences, the European Union ensures that all regions and social groups contribute and also benefit from the general economic development of the Union. Articles 3 and 158 of the Treaty of the European Union reflect this vision. For these reasons, the cohesion policy must be seen as an integral part of the Lisbon and Gothenburg strategy. In other words, cohesion policy must include the Lisbon and Gothenburg objectives, and become the motor of their implementation, through national or regional development programmes, where they exist.

[20] The European Commission adopted the Lisbon Strategy in 2000, with the aim that the European Union would "become, by 2010, the most competitive and the most dynamic world economy based on knowledge, capable of sustainable growth with a rising number and quality of jobs and greater social cohesion".

[21] The basis of the European Sustainable Development Strategy, which was adopted by the European Commission in Gothenburg in 2001, is to ensure that economic development goes "hand in hand" with the quality of the environment and the inclusion of social issues, all for the purpose of improving the lives and welfare of all citizens.

Regarding other characteristics, a further concentration has been undertaken, the number of funds has been reduced to three (the ERDF, the ESF and the Cohesion Fund), three goals have been set, the Community initiatives have been revoked and emphasis has been put on the less developed regions (78.5 percent of available resources will be focused on less developed regions).

The Cohesion policy and its instruments, over the 2007-2013 period, will be directed at higher growth and employment in all regions and cities of the European Union. During this period the European Union plans the highest investments ever through cohesion instruments, amounting to **€347 billion**. To get a better picture of how these are important to member states, their allocation billions of Euro for some member states in the 2007-2013 period are as follows: Austria (1.5), Czech Republic (26.7), Hungary (25.2), Germany (26.3), Slovenia (4.2), Bulgaria (6.8), Romania (19.6), etc.

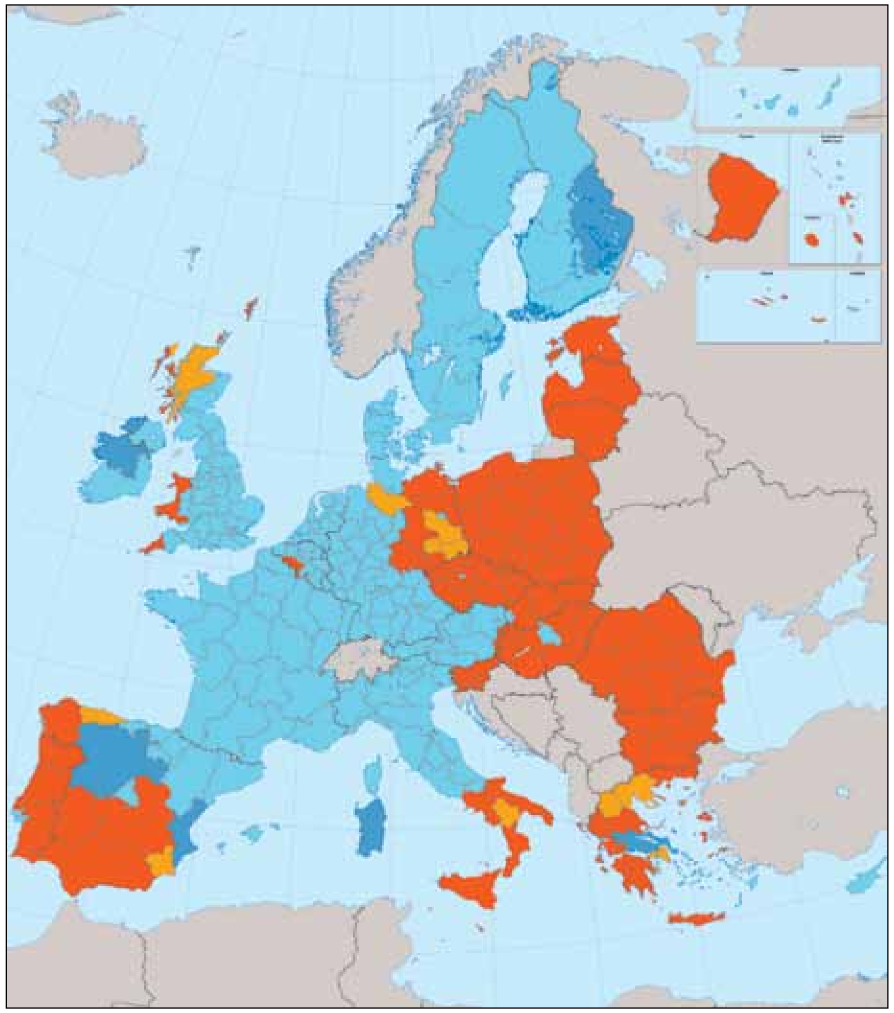
In the period in question, the European Regional Development Fund, European Social Fund and Cohesion Fund ought to have contributed to achieving three key objectives: convergence, regional competitiveness and employment and European territorial cooperation.

Goals	Structural Funds and Instruments		
Convergence	ERDF	ESF	Cohesion Fund
Regional competition and employment	ERDF	ESF	
European territorial cooperation	ERDF		

Table 3. Goals, Structural Funds and Instruments 2007 – 2013

Convergence means efforts to promote conditions for increased growth, and factors that lead to true convergence of the least developed member states and regions. Among the 27 member states of the European Union, this objective applies to 84 regions in 18 member states. The total population in these regions is 154 million (31 percent of EU27), and the GDP per capita lower than 75 percent of the Community average (when compared to the 2000-2002 period). This goal also includes 16 phasing-out regions, with a total of 16.4 million inhabitants and GDP slightly above the defined threshold, due to the statistical imbalance caused by the enlargement of the European Union. The amount available to achieve the convergence objective is €282.8 billion, 81.5 percent of the total funds earmarked for regional policy. From this amount €199.3 billion is intended for the regions for convergence, €14 billion for the phasing-out regions (13 regions with 3.4 percent of the population of the Union), and €69.5 billion for the Cohesion Fund, which is being used by 15 member states (ten new member states, Portugal, Greece and Spain during the transitional period).

Regional competitiveness and employment contributes to strengthening competitiveness, ability to attract investments and employment in two ways. First, development programmes assist regions in anticipating and promoting economic change through innovation and the promotion of the knowledge society, entrepreneurship and environmental protection and improvement of their presence. Second, more quality jobs will be supported by adjusting the labour force and investing in human resources. There are 168 regions, with a total of 314 million inhabitants which meet the criteria for receiving assistance intended for this objective. Among these, 13 regions, with 19 million inhabitants, are in the phasing-out stage, with specific allocation of funds due to their prior status under the Objective 1. Somewhat less than 16 percent, or €55 billion, has been allocated for the objective of regional competitiveness and employment, of which €11.4 billion is for phasing-out regions. Regions which fall under the regional competitiveness and employment objective are located in 19 member states.



Map 2.
Structural funds (2007 – 2013)

The earlier programmes Urban II and Equal have now been integrated into the convergence and the regional competitiveness and employment objectives.

European territorial cooperation is aimed at strengthening cross-border cooperation through joint local and regional initiatives, trans-national cooperation designed for integrated territorial development, strengthening interregional cooperation and the

exchange of experiences. The population living in the border regions amounts to 181.7 million inhabitants (37.5 percent of the total EU population). An amount of € 8.7 billion (2.44 percent of the total amount) intended for achieving this goal has been distributed as follows: € 6.44 billion for cross-border programmes, € 1.83 billion for trans-national programmes and € 445 million for interregional cooperation.

This objective is based on the experiences gained through the earlier Community initiative INTERREG.

During the current period, objectives have been defined to strengthen the economic and social cohesion of the European Union. They are financed from three funds.

The European Regional Development Fund (ERDF), which aims to strengthen economic and social cohesion in the European Union by correcting the imbalances among regions. ERDF funds can be engaged for interventions lying within the scope of all three regional policy objectives: convergence, regional competitiveness and employment and European territorial cooperation. The ERDF also provides direct support to companies (especially small to medium enterprises or SMEs) aimed at creating sustainable jobs, support to infrastructure related to research and innovation, telecommunications, environmental protection, energy and transport.

The European Social Fund (ESF) is designed to increase employment and job opportunities in the European Union. Interventions fall within the framework of the convergence and regional competitiveness and employment objectives. The ESF supports activities in the fields of employment, gender equality, social integration and the fight against discrimination in employment, and the strengthening human capital through the reform of the education system and the establishment of a network of educational institutions.

The Cohesion Fund is intended for member states whose GDP per capita is lower than 90 percent of the Community average. Its aim is to alleviate their economic and social disadvantages, and to stabilise their economies. It supports initiatives within the convergence objective and is subject to the same programming, management and monitoring rules as the ESF and the ERDF. During the 2007-2013 period, the beneficiaries of the Cohesion Fund will be Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. Spain falls under the phasing-out category, but only when its GDP per capita is evaluated according to the EU 15 average. Cohesion Fund finances activities in the area of transport, particularly trans-European transport networks and environmental protection including energy efficiency, the use of renewable energy sources, the development of railway transport, support to inter-modality and the strengthening of public transportation.

An important aspect of the cohesion policy is cooperation between the European Commission, the European Investment Bank Group and other international financial institutions on financial engineering issues. In this regard, three initiatives were prepared for the 2007-2013 programming period:

- **JASPERS**, Joint Assistance in Supporting Projects in European Regions;
- **JEREMIE**, Joint European Resources for Micro to medium Enterprises;
- **JESSICA**, Joint European Support for Sustainable Investment in City Areas.

The purpose of JASPERS is to offer technical assistance, in the form of grants to member states for regions which fall under the convergence objective, to provide technical assistance in the documentation phases of major investment projects (€25 million for environmental projects and €50 million for transport projects). This increases the quantity, quality and speed at which the projects are submitted for approval. JASPERS relies upon a partnership between the European Commission (Directorate General for Regional Policy), the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD)[22].

[22] The Western Balkan countries can benefit from the European Fund for South-East Europe within the framework of the Multibeneficiary IPA, which corresponds to the JASPERS. initiative to a considerable extant.

JEREMIE refers to the promotion of increased access to finance for small to medium-sized enterprises in the regions of the European Union. Better access to financial resources is a priority under the renewed Lisbon agenda, in an attempt to increase the availability of capital for the establishment and development of enterprise. JEREMIE is designed to overcome these difficulties by creating a framework for cooperation with specialized financial institutions like the EIF (European Investment Fund) and the EIB[23].

[23] The Western Balkan countries can benefit from the Infrastructure Project Facility programme within the framework of the Multibeneficiary IPA, which corresponds to the JEREMIE initiative to a considerable extent.

JESSICA is an initiative of the European Commission in cooperation with the EIB and the Council of Europe Development Bank, which promotes sustainable investment, growth and employment in urban areas of the Union. Since projects are not funded from grants in this case, contributions from the programme for urban development have a revolving character to ensure the sustainability of investments. Funds from the programme are used to finance loans which urban development authorities funds provide to end users. These loans are supported by a guarantee schemes which are established by the urban development authorities and participating banks. Since there is no state guarantee for these loans, they do not affect the state of public finance and public debt.

Principles of using Structural Funds

"**The Management of Structural Funds is a challenge**. Implementing large, multi-annual, inter-sector projects within an administrative framework which can differ from national practice is extremely complex and demanding ... a key aspect is learning from the best practices of previous periods of Structural Funds management and the exchange of experiences between Member States and regions."[24]

[24] Professor John Bachtler: "Managing Structural Fund programmes: Learning about best practice", Inforegio, European Commission, 2005

There are four basic principles underlying Structural Funds management - the principle of programming, concentration, co-financing and partnership. These were introduced in 1988, with the exception of the principle of co-financing, which was introduced with the establishment of the ERDF in 1975. All these principles apply today, and are an integral part of pre-accession assistance.

Programming is a principle which, in practice, represents the process of preparing multi-annual funding programmes from the Structural Funds in accordance with defined objectives and criteria, moreover within a predefined indicative allocation of funds for the member states, to ensure the coherence of investments. The programming process is the first phase of the project cycle and requires several steps based on cooperation between the beneficiary countries and the European Commission.

Concentration was introduced by Delors' first reform, and implies directing funding where it is most needed, i.e. directed at achieving a number of predefined goals in those regions that meet a given criteria. In this regard, the three objectives of the Structural Funds were defined, with a clear regional focus based on the NUTS territorial classification. Concentration, therefore, implies geographic, i.e. economic criteria.

The co-financing or the additionality principle, implies that part of the investment in defined goals comes from domestic sources, i.e. that the EU co-finances investments of a beneficiary country. This was introduced with the establishment of the European Regional Development Fund in 1975, which stipulated that the Fund cover up to half of the cost of development projects in eligible regions, while the rest would be financed from domestic sources. The idea behind this approach was that EU funds do not simply serve as a replacement for domestic investments, thus undermining the basic purpose of these funds – to accelerate development through increased investment. Co-financing is provided in the programming process, so that funds from domestic sources are clearly indicated in the respective programming documents (as well as funds from other sources, such as funds from international financial institutions, so as to enable coordination).

Partnership implies cooperation and close consultation between all government levels of a member state and the European Commission. The principle of partnership is observed through all stages of a project cycle within the Structural Funds and Cohesion Fund. Over time, this principle has evolved to include economic and social partners, bodies and organisations dealing with environment protection and gender equality, and now includes civil society and NGOs.

Structural Funds are intended for established goals and development programmes and are implemented according to clearly established and strictly defined rules. **The Project cycle of Structural Funds can be described as follows:**

- A decision on the budgeting and rules for the use of Structural Funds are decided by the Council and European Parliament based on a proposal put forward by the European Commission;
- The Commission presents a proposal for the Strategic guidelines on cohesion after consulting the member states. These guidelines guarantee that the member states will adjust their programming to the European Union priorities, to provide incentives to innovation and entrepreneurship, foster the growth of a knowledge-based economy and create more and better jobs;
- During the dialogue with the European Commission, each member state prepares a National Strategic Reference Framework (NSRF), coherent with the strategic guidelines. The NSRF defines the strategy of each member state and proposes a list of operational programmes;
- Based on the NSRF member states prepare an operational programme (OP) which presents the priorities of the member state (and/or regions), as well as the manner of programming and implementation. The Commission validates certain parts of the NSRF which require its decision, as well as each operational programme. Countries and regions under the convergence objective must allocate 60 percent of expenditures to the priorities arising from the EU strategy for growth and jobs (Lisbon strategy). For countries and regions falling under the competitiveness and employment objective, that percentage rises to 75 percent. The European Commission has adopted around 450 operational programmes for the 2007-2013 period. Economic and social partners as well as civil society bodies have participated in the programming and management of the OPs. Member states are obliged to define a certain amount of co-financing at the level of operational programming;
- After the Commission has decided about the operational programmes, the member states and/or its regions implement the programmes, i.e. select and implement the projects. This implementation takes place through the so-called managing authorities in each country and/or region;
- The Commission allocates funds (to allow the Member State to initiate a programme);
- The Commission pays certified expenditure to the member state;

- The Commission monitors each operational programme alongside the Member State;
- Strategic reports will be submitted both by the Commission and by the Member States throughout the 2007-2013 programming period;
- The evaluation and audit of programmes and projects will be carried out during and after their implementation.

The Centre for European Policy Studies states that the implementation of the cohesion policy requires a highly developed institutional framework. Each member state has its own characteristics with institutional organisations of varying levels of complexity, nevertheless, a common denominator is found in each country's level of integration into an existing, i.e. parallel system. The Centre for European Policy Studies has identified three different approaches:

- **The differential approach**, characterised by the division of structures for cohesion policy implementation (e.g. the Netherlands, Sweden, Great Britain);
- **The unified approach**, whereby funds are directed through national and regional ministries and agencies (e.g. Austria, Spain, parts of Germany and most of new member states);
- **The combined approach**, which is a combination of the previous two (e.g. Finland, France and Italy).

Key factors that influence the creation of one specific system within these approaches above are the existing administrative structure (centralised, de-concentrated or federal, i.e. regional set-up) and the levels of financing. Paradoxically, even small funds encourage the creation of parallel systems.

An analysis of decisions made by EU Member States regarding to EU funds management systems shows that only 36.9 percent of total funds are managed by bodies established at a regional level, while the rest of is under central authorities.[25] As for funds allocated under the Cohesion Fund, bodies formed at a regional level handle 30.5 percent of the total budget. It should be noted that those are precisely the regions that enjoy a greater level of autonomy, such as certain regions in Germany, Italy and Spain, and have specific jurisdiction over the management of these resources.

[25] *Source: DG Regio web page*

In my opinion, the majority of people who read this study will ask themselves: "Why is there all this fuss, when we still question whether all this (regional policy and European funds) actually works effectively?" The question can only be answered with ease when considering the complexity of the rules. An analysis of the evolution of the cohesion policy management system, since its reform in 1988, shows that certain negative aspects of the cohesion policy are caused by attempts to limit the role of the European Commission in the management system. The attitude that certain "conditions" imposed on the member states in the management of cohesion policy, in relation to monitoring, reporting, evaluation, specific institutional requirements etc., should be abolished or bypassed is wrong. Certain general principles need to exist on European Union level based on the 'best of all possible worlds' practice. On the other hand, it is left to the Member States to incorporate these principles into their national systems, thereby taking into account the established principles and framework of regulations, meanwhile the European Commission reserves the right to either verify the established system or disagree with it. Only in this manner, with the certainty of existing rules, can one be sure that everything was done to make cohesion policy as effective as possible and ensure that the same laws apply to all.

2. Republic of Serbia in the context of regional policy

Serbia is a potential candidate for membership in the European Union, standing at a social and economic turning-point, which brings new opportunities and new challenges. This crossroads requires a review of its own social and economic advantages, and the identification of the gaps and weaknesses that could prevent Serbia from gaining the most from opportunities arising for its economy and society.

Map 3. The 40 most underdeveloped municipalities in Serbia

Certain areas in the Republic of Serbia are suffering from serious depopulation on one side while there is a process of intense concentration of population and economy in only a few cities on the other. Such trends have negative consequences in the economic, social, spatial and environmental sphere. The index of developmental vulnerability shows that the ratio between the most developed and the least developed area is 1:7, and the ratio between the most developed and least developed municipality is 1:15. However, a more serious problem is the overall underdevelopment of Serbia in relation to the EU average, the average GDP per capita in Serbia in 2006 was only €3,273[26]. Unemployment in Serbia (18.8 percent) is still one of the highest in the region, and there is a very strong negative trend in population growth (depopulation in certain areas).

[26] EU average is €27,868, while the average of other states in the process of European integration is: Croatia €8,445, Turkey €6,804 and Montenegro €3,443.

On the other hand, the Republic of Serbia does not have a clearly defined national regional policy at the moment. Nonetheless, the necessity, importance and framework of regional policy and sustainable regional development are defined in the highest legal acts, as well as in a number of strategic documents and laws. The underlying reasons for this absence of a clearly formulated national regional policy are different opinions regarding the territorial organisation of the Republic of Serbia, and certain solutions which were adopted.

2.1 Strategic and legislative framework

The Constitution of the Republic of Serbia ("Official Gazette RS", no. 83/06) devotes special attention to regional development, as well as to the development of underdeveloped areas. The Constitution, in the articles related to economic regulations and public finances, states that "The Republic of Serbia shall take care of balanced and sustainable regional development, in accordance with the Law." (Article 94 of the Constitution - Balancing development). Moreover, the Constitution states that it is the jurisdiction of the Republic of Serbia to regulate and provide the "development of the Republic of Serbia, policy and measures for spurring balanced development of particular areas of the Republic of Serbia, including the development of underdeveloped areas" (Article 97, item 12 of the Constitution).

The first step in implementing the constitutional jurisdiction of the Republic of Serbia regarding problems of regional development was taken by enacting the **Strategy of Regional Development of Serbia for the 2007-2012 period** ("Official Gazette of RS, no. 21/2007). This Strategy, adopted by the Government in January 2007, defines, for the first time, the main priorities of regional development in Serbia and the manner of their implementation in a comprehensive and consistent way. The Strategy states the most important objectives and models for successful implementation of the regional development of Serbia: sustainable development; raising regional competitiveness; reducing regional inequalities and poverty; terminating negative demographic trends; the continuation of the decentralisation process and the economic integration of the Serbian community in the Autonomous Province of Kosovo and Metohija. As basic goals and guidelines, the Strategy envisages a future necessity to pass a law and set of by-laws in the area of regional development, it foresees three key areas of regional development policy in the future: 1) determining the level of development - categorisation and typology of areas, as well as statistical regionalization (NUTS II and NUTS III); 2) defining development policies with the aim of encouraging the regional development of Serbia; 3) establishing institutions responsible for the implementation of the Strategy.

The Stabilisation and Association Agreement and the Law on the ratification of the Stabilisation and Association Agreement between the European Community and its Member States, on the one hand, and the Republic of Serbia, on the other ("Official Gazette of RS", no. 83/08) emphasise the importance of regional development policy and measures for its implementation in the process of European integration. The agreement mentions regional and local development as one of the priority areas of cooperation between the European Union and the Republic of Serbia: "The Parties shall seek to strengthen regional and local development cooperation, with the objective of contributing to economic development and reducing regional imbalances. Specific attention shall be given to cross-border, trans-national and interregional cooperation. Cooperation shall take due account of the priority areas related to the Community *acquis* in the field of regional development" (Article 113, Title VIII - Cooperation policies).

The National Programme for Integration with the European Union listed, as short-term priorities, the adoption of the Law on regional development and the introduction of a decentralised implementation system for EU funds, through the establishment of an appropriate legislative framework, structures for the preparation, implementation and control of programmes and projects funded by the European Union and timely and continuous capacity building.

The Law on Regional Development ("Official Gazette of RS", no. 51/2009) determines the names of the regions and regulates the definition of territorial units which constitute a region; the definition of local government units which constitute an area; the indicators for the levels of development in regions and local government units; the classification of regions and local government units according to development level; development documents; implementers of regional development; measures and incentives and sources of funding for the implementation of regional development measures.

Moreover, regional development as a broader priority, is recognized in a number of other strategic documents adopted by the Government of the Republic of Serbia. Thus, as one of its strategic guidelines, **the Strategy for reducing poverty** emphasises the encouragement of regional policy development through inter-municipal cooperation. **The National Strategy for the Accession of Serbia to the European Union** states that one of the priorities of the Republic of Serbia on its path to the European Union is the adoption of legislation on balanced regional development, the definition of criteria to determine the level of development, the establishment of institutions to deal with regional development, the definition of a core system in relation to the management of funding and other types of support for the faster development of underdeveloped areas. One of the strategic goals set down in the Strategy for the promotion and development of foreign investment is to create the conditions for a balanced regional development of the country, i.e. to promote, and then continue, the development of each region.

It should also be mentioned that in accordance with the **Law on (the) Territorial Organization of Serbia** ("Official Gazette of RS", no. 129/07), the territorial organisation of the Republic of Serbia comprises: 150 municipalities (the minimum number of inhabitants is 10,000), 23 cities (the minimum number of inhabitants is 100,000) and the city of Belgrade as a territorial unit, plus two autonomous provinces (Vojvodina and Kosovo and Metohija) under a form of territorial autonomy.

2.2 Review of the Law on Regional Development

The importance of regional development for the overall sustainable socio-economic development of Serbia and the need to reduce regional and intraregional differences and raise competitiveness are the facts that have justified the adoption of this law which aims to regulate the area of regional development in a systematic manner. Special attention should be paid to the main parts of the Law on Regional Development as many expectations have been created, primarily among local government institutions, about the effects the implementation of this law could have in reducing regional differences and encouraging faster development in underdeveloped parts of Serbia.

For this occasion, it should be remembered that the competent ministry carried out extensive consultations with the stakeholders while preparing the law and during this consultative process, it was not easy to reconcile ideal models on the one hand with numerous real interests and needs on the other.

In presenting the Law on Regional Development briefly, it should be noted that administratively, this law envisions Serbia divided into seven statistical regions: Vojvodina, Belgrade, Western, Eastern, Central, Southern and the region of Kosovo and Metohija. The law also establishes the criteria according to which developed and underdeveloped regions are to be determined. It is stated that the government will identify the seven regions based on a proposal of the Statistical Office of the Republic of Serbia in accordance with EU standards. According to the level of development: regions are classified into those above 75 percent of the national average GDP per capita and those below that percentage, while local government units are classified into four groups. The law stipulates that the National Parliament should pass a plan, defining the priorities in regional development over the next ten years, prepared by the competent ministry. The law foresees the formation of a National Council for Regional Development, whose mandate will last five years, it will have 19 members and a president, a position to be held by the minister responsible. Moreover, the Government should establish a National Agency for Regional Development, which would be responsible for development and professional research into regional development, as well as a Regional Development Council and the Regional Development Agency for each region. The law stipulates that the Serbian government will define measures for encouraging regional development aimed at improving the economy and development of towns and municipalities, and the improvement of environmental protection and the development of underdeveloped areas. Alongside the EU pre-accession funds, grants from the international community and development loans from international financial institutions. regional development will also be financed from the national budget, budgets of autonomous provinces, the budget of the city of Belgrade and local government units. To initiate the implementation of this law, it is necessary to pass by-laws which will regulate certain issues established under the law in more detail.

The introduction of this new nomenclature within the statistical system of the Republic of Serbia should establish a European statistical standard for the collection, processing and presentation of data at the level of territorial units. This data will be the basis for assessing eligibility in EU Structural Funds programming, to ensure the distribution of EU development funds.

However, **the NUTS classification is the first condition for the use of EU Structural Funds after accession.** The existence of a NUTS classification in the accession phase enables more efficient management of regional development policy, as it provides clear indicators of development in the country and thus creates room for the selection of the most appropriate measures for solving problems of regional disproportions and underdevelopment. As already pointed out, according to the *acquis communautaire* of the European Union, statistical territorial units do not represent a legal or administrative division of the state territory nor a mandatory basis for implementing and designing national regional development policy. However, bearing in mind that these two regional development policies (EU and national) need to supplement one another, the need for the coordinated action of all factors in their creation and implementation should be taken into account.

One of the commitments that Serbia assumed under the Stabilisation and Association Agreement[27], is to submit the data on the level of GDP per capita to the European Commission, harmonised at NUTS II level over a period of four years. Although the main purpose of this provision is to define terms for the allocation of regional state aid and Structural Funds and users on the territory of Serbia, accepting this provision means opening an important debate in Serbia on the statistical division of the state territory. It is important to underline that the European Union does not request regionalisation nor gives criteria or suggestions on how it should be undertaken, which very clearly demonstrates the diversity of the internal organisation of the EU Member States. It is also important to note that internal organisation in Serbia is a constitutional category, and that it can be changed only by changing the Constitution.[28] However, it is

[27] *Article 73.7b of the Stabilisation and Association Agreement*

[28] *Article 182 of the Constitution of the Republic of Serbia*

a requirement of the European integration process is that the country be capable of submitting data on its development in a uniform way (in accordance with the NUTS principles), in order to allocate assistance for underdeveloped regions (domestic and European) in the most efficient way and to the most vulnerable points.

The explanation of Article 5 of the Law on Regional Development states that the prior approval of Eurostat is a prerequisite for the official establishment of the NUTS nomenclature. Bearing in mind that such approval had not been given before the enactment of the Law, **the question stands as to whether Eurostat will approve the regions so defined**. The Law envisages regulations based on its provisions to be enacted within six months of the Law's entry into force. Will the NUTS regions be coordinated with Eurostat in the expected period of six months? Coordination will now be much more difficult. One should bear in mind the official Eurostat report for 2008 which states: "Regions in the candidate countries and EFTA[29] countries represent the so-called statistical regions and follow the same rules which apply to NUTS regions, but without any legal basis." In addition, the establishment of seven regions deviates from the arrangement proposed in the Regional Development Strategy of the Republic of Serbia for the 2007-2012 period[30], thus raising issues regarding the justification of such an arrangement. It should not be forgotten that Serbia had four years at its disposal to prepare and make a decision on regions, in cooperation with Eurostat, which would be in its best interest, i.e. correspond to its development needs. Moreover, the question remains whether each region established under the Law will have a sufficient number of inhabitants at the NUTS II level. It should not be forgotten that regional development level data based on the NUTS classifications would be the same basis used for the allocation of Structural Funds, were Serbia to become an EU Member State today.

29 Iceland, Lichtenstein, Norway and Switzerland

30 The first model envisaged the establishment of four regions: Vojvodina, the city of Belgrade, central Serbia and Kosovo and Metohija. The second model envisaged five regions: Vojvodina, the city of Belgrade, eastern Serbia, western Serbia and Kosovo and Metohija. The third model envisaged the establishment of nine regions: the city of Belgrade, eastern Vojvodina (Banat), western Vojvodina (Backa and Srem), an Eastern, a Southern, a Western and a Central region, western Kosovo and eastern Kosovo.

The official statistics governing how to calculate the development of regions and local government units will be established in an appropriate by-law. However, it remains unclear how the classification of local self-government according to the level of underdevelopment will fit into the regional classification, and **how the level of development will affect the principles of investing in development**. A Similarity can be observed between the rules of cohesion policy and the level of regional development, this is mirrored in the 75 percent benchmark of national average GDP per capita. A substantial difference compared to the cohesion policy is that the level of development of the regions within the European Union is measured according to the level of all member states (EU27 = 100 percent), and not every country individually, as defined by our Law.

The Law does not envisage the possibility of revising the National Plan of regional development and the regional development strategies. It should be noted that the National Plan of Regional Development will be prepared for a period of ten years and the Regional Development Strategies for a period of five years. There is no doubt that these documents will be ready by the end of the current financial period of the European Union (2007-2013). This fact underlines the necessity to harmonise and the need to revise these documents, to ensure compatibility with new financial perspective (2014-2020) and European priorities, in a period when the Republic of Serbia expects to become a EU member.

Article 17 foresees that programmes financing regional development should include a list of regional projects and the allocation of financial resources for their implementation, region by region, in the yearly budget. **The Law should have provided that a specific methodology be formulated i.e. criteria for project selection**, (e.g. for infrastructure projects - the existence of feasibility studies, environmental impact assessments, technical and tender documentation, etc.). The principles of good project management and practice, already used for EU funded projects, require the establishment of such criteria. In addition, yearly budget planning, in practice, requires the establishment of mechanisms coordinated with the preparation of finance programmes, especially considering the complicated procedure, which requires opinions from regional development councils, the National Council, the ministry responsible for regional development tasks, ministries, and finally the decision of the Government. Otherwise, what has been created is merely a rush-job, an alternative to having funds blocked.

Article 18 provides that other documents, in the field of regional development (strategies, programmes, plans, action plans), must obtain an assessment on the conformity of these documents with the National Plan and regional strategy. In the forthcoming period it will be necessary, to curb **discretionary rights of interpretation regarding development documents for which assessments should be provided**. In addition, as it is envisaged that assessments be provided by regional development councils, where no professional outsourcing is provided, it is necessary to ensure that the competent assessor has sufficient capacity to undertake the analysis of all the documents properly and timely (e.g. assessment of all municipal strategies on the territory of one region).

The Law establishes a **very complicated and heterogeneous network of institutions, the authorities of which are not always precisely defined or divided** (ministries responsible for regional development tasks, finance and urban planning – the National Agency for Regional Development – the Regional Development Councils (seven) - regional agencies (seven) - county associations, as many as the NUTS III regions).
The conditions, criteria, methods of accreditation and methods of **withdrawal of territorial association accreditation** (Articles 41-43), according to which the National Agency performs accreditation, should be formulated in a manner that all **opportunities**

for discretionary judgement are removed. The evaluation of territorial associations should not be performed either by regional or national agencies alone, but also by those for whom these agencies have been established - the municipalities. For this reason, it is necessary to predict the specific role of municipalities in the accreditation process, and its eventual withdrawal.

The law stipulates that monitoring and evaluation of implementing measures and incentives is performed by the Ministry (of Economy and Regional Development). The fact that one ministry, which assigns tasks to the National Regional Development Agency (which accredits territorial associations, therefore creates and implements regional development policy), simultaneously monitors and evaluates the implementation of regional development policy of the Republic of Serbia, **does not fully correspond to the principle of independent control and impartial evaluation**. According to the Law, the established institutional model in the field of regional development in Serbia should "evaluate itself." Namely, the practice in EU member states shows that monitoring and evaluation of policies is performed not only *ex-post*, but *ex-ante* and in the *mid-term*, and that evaluation is performed by independent research centres/institutes etc., therefore similar solutions should be envisaged in monitoring and the evaluation of policies in our case as well.

It is important to note that **neither the existence of NUTS classification, nor the existing regional agency structure is important for the use of pre-accession funds**. Article 49 of the Law on Regional Development speaks in favour of this by stipulating that the programmes and projects financed from the pre-accession assistance should be planned and implemented according to the existing rules. It should be noted here that "the accession process is often accompanied by a decentralisation process aimed at improving the efficiency of state administration with the application of the principle of subsidiarity. These efforts are often identified with the management of Structural Funds, which, by definition, have a strong regional focus. However, the experiences of Ireland, Portugal, and most new member states suggest that decentralisation and the establishment of structures for EU funds management do not go hand in hand. On the contrary, in countries where the poor regions are facing development challenges and have limited fiscal resources and limited administrative capacity at their disposal, central government must take a leading role. Centralised programming and implementation of EU funded programmes and projects is necessary to ensure the efficient implementation of priority programmes and projects. Decentralisation is necessary, but not as the reason for Structural Funds disbursement per se. At the same time, this centralised approach should not ignore the broader consultative process related to the preparation of programmes and projects of interest to local communities."[31]

31 Marinov V., Bahloul H., Slay B.: "Structural Funds and the new member states: lessons learned", Development & Transition, Issue 4, 2006, page 6

The adoption of the Law on regional development is a positive step towards the regulation of national regional policy. In order to ensure the practical application of this Law, it is necessary to make the appropriate corrections and adjustments in the coming period. The Government should define NUTS regions in cooperation with Eurostat, create a methodology for calculating the development levels of local self-governments, as well as a methodology to determine the development levels of the regions themselves, the establish an institutional and strategic framework. These processes provide the opportunity to correct the above-mentioned ambiguities and adapt to the practices of the EU member states, while taking into account the needs and specific characteristics of the Republic of Serbia at the same time. In addition, it is necessary to perform continuous, but independent monitoring of the results of the Law to allow for future objective adjustments.

It should pointed out that the European Commission was involved from the beginning in the preparation of this Law. Moreover, the European Commission presented its assessment after the Law on regional development had already been adopted. It seems that we have missed out of the know-how gained by the European Commission through the experience of other states which had already passed through this process.

The experience of the countries that joined the European Union in the last wave, shows that it is more useful, in the introduction of NUTS classifications, to establish regions according to the economic needs of the country, to attract more EU Structural Funds, than to establish regions only according to historical and administrative lines (where they exist). Countries like Poland, the Czech Republic, Bulgaria and Slovakia have radically reshaped their regional divisions. When defining the regions one should take into account that the European Union considers as underdeveloped NUTS II regions those which can receive assistance from Structural Funds and whose GDP is below 75 percent of the EU average. In addition, once the country defines the regions and submits its statistical division, it can redefine it later in cases when some regions no longer need help (with the development of the economy and an increase in GDP). However, this can be done only in agreement with the European Union since the funds come from the taxpayers of the EU member states. The example of Belgrade should be used as a basic principle in defining the regions further. Belgrade, the engine of Serbia's development, needs to be singled out as it will most likely be the first region to exceed the 75 percent of EU average GDP. Otherwise, the development of Belgrade would lead to a statistical increase of GDP in the region, making the rest of the region outside of Belgrade appear to be at the same level of development, and without the possibility of receiving support for underdeveloped regions. The same principle should be applied to the rest of the country, where urban centres will inevitably undergo a somewhat similar process (Novi Sad, Kragujevac, Smederevo, Čačak, Niš ...), as the engines of development in their regions. Moreover, when establishing regions one should take into account their distinctive problems (unemployment, depopulation, non-working industry, environment, etc.), but also their advantages (e.g. connection with corridors VII and X, tourist potentials, borders with the European Union or other states, etc.).

Finally, it should be mentioned that it is realistic to expect that a pro-regional approach to the EU regional policy will be used for the political ambitions of certain regions and organisations, under a pretext of regional development, the implementation of national regional policy and the regionalisation of Serbia. However, it is also necessary to point out that **EU regional policy and its implementation need not imply national regional policy and its implementation, which may or may not involve regionalisation**.

In the previous section of this study, it was pointed out that EU regional policy should be distinguished from national regional policy, i.e. regionalisation and regionalism. In this regard, it should be noted that it is in the interest of Serbia to ensure complementarity between the EU regional policy and the planning and implementation of Serbian regional development policy. Only in this way, is it possible to ensure balanced regional development in Serbia and the general welfare of its citizens, regardless of which part of Serbia they live in. On the other hand, statistical-economic regions could represent a good basis for the further introduction of regions as administrative units, or territorial autonomies. However, this is a separate issue for professional and political debate, including constitutional changes in this sphere, especially since Serbia has no experience and tradition of this kind, and would certainly need to avoid improvisation or the mechanical imitation of specific models of other European countries, which have this type of region within their territorial organisations.

When establishing statistical regions and developing the institutional framework further, it is important to think strategically, long-term, and look at this question as a historical opportunity to regulate Serbia in a manner that allows for the most appropriate and efficient policy of balanced regional development, aimed at fulfilling the needs of underdeveloped regions.

2.3 The Instrument for Pre-Accession Assistance

In the 2000-2006 period, the countries in the EU accession process had four financial instruments at their disposal:

- **PHARE** (Pologne et Hongrie - Aide á Restructuration Economique);
- **ISPA** (Instrument for Structural Policies for Pre-Accession);
- **SAPARD** (Special Pre-accession Assistance for Agriculture and Rural Development), and
- **CARDS** (Community Assistance for Reconstruction, Development and Stabilization).

The Republic of Serbia in the 2000-2006 period used the CARDS instrument to the amount of about € 1.3 billion.

By adopting the Council Regulation no. 1085/2006, on 17 July 2006, which came into force on 1 January 2007, all these instruments were replaced by one pre-accession instrument with five components. The aim of this regulation was to define a coherent framework for providing assistance to candidate and potential candidate countries and improve the efficiency of the Union in providing external assistance. The Council Regulation defines the basic features of this new pre-accession instrument - its purpose, components, areas on which assistance will focus on and the forms this assistance will take, as well as the basic rules for its implementation.

The Instrument for Pre-Accession Assistance (IPA) is a programme for countries in the process of accession to the European Union. Pre-accession funds have been established to facilitate the economic and social transformation which EU accession implies. **The total IPA budget for the 2007-2013 period is €11,468 billion**. About €1.4 billion is intended for the Republic of Serbia in the 2007-2013 period. The general framework, the principles under which the assistance is implemented and the areas and forms of assistance, are defined in EU Commission Regulation no. 718/2007 of 12 June 2007,[32] Multi-Annual Indicative Financial Framework and Multi-annual Indicative Planning Document.

[32] The EU Commission Regulation on IPA implementation (718/2007) is based on the framework EU Council Regulation on IPA and the Council Financial Regulation no. 1605/2002 modified under Regulation 1995/2006, which defines models of managing EU funds, including IPA funds, i.e. the model by which the EU budget operates.

Instrument for Pre-Accession Assistance consists of **five components**:

1. **Transition assistance and institution building**. The first IPA component is designed to support the process of EU accession, meet the criteria and standards implied under accession, transfer of legislation and, in particular, the reinforcement of institutional capacity.
2. **Cross-border cooperation**. The objective of this component is to promote good relations with neighbours and regional cooperation between bordering regions, traditionally lagging behind economically in countries which have a common border, through the implementation of joint projects.
3. **Regional Development**. The third IPA component aims to improve economic and social cohesion through the development of transport infrastructure, particularly the development of national transport networks and trans-European networks, environmental protection in the form of waste management, water supply, wastewater and air quality, the rehabilitation of polluted areas, energy efficiency and renewable energy sources and the development of regional competitiveness by encouraging entrepreneurship and employment.

4. **Human resource development.** This component aims to contribute to economic and social cohesion, implementing the priorities of the European Employment Strategy in the fields of employment, education, training and social inclusion.
5. **Rural Development**. This component provides support for sustainable agricultural and rural development by improving market efficiency and adopting EU standards, supports the establishment of producer groups and invests in the processing and placement of agricultural and fishery products, the implementation of measures in the field of environmental protection in agriculture and the improvement and development of rural infrastructure.

Although established as a unique and coherent assistance instrument, the **IPA makes a distinction between the beneficiary states**. Unlike those candidate countries which have a decentralised implementation system for EU funds (DIS) accredited and which receive assistance through all five components, potential candidate countries and those candidate countries without the DIS accreditation receive assistance only through the first two components. It is clear therefore, that a basic prerequisite for using all five IPA components is the status of candidate for EU membership, with an accredited decentralised implementation system for EU funds. It is important to note that the components designed for candidate countries serve primarily to prepare those countries to benefit from EU funds after accession.

The purpose of this decentralised implementation system is to enable the IPA beneficiaries to manage EU funds independently, firstly, the activities of public procurement, contracting, payment and control. However, EU funds management in a decentralised implementation system can be granted only when certain "minimum criteria and conditions", defined by the European Commission in the IPA Implementing Regulation, are fulfilled.[33]

[33] *Interview with Iain Mackie, expert in PPF at the Cabinet of the Deputy Prime Minister for EU integration, 2009*

The establishment of the decentralised implementation system for EU funds is a complex and lengthy process which requires active engagement and the coordination of relevant institutions. The fulfilment of the obligations to establish such a management system requires changes in the legislation, the establishment of new institutions, the establishment of necessary procedures, the existence of a sufficient number of trained personnel and the approval of all stakeholders. Preparation for the accreditation is the process led by national institutions with the support of the European Commission. In this regard, the Government of the Republic of Serbia on 24 April 2008 adopted an Activity Plan in preparation of accreditation for a decentralised management system for EU funds in Serbia. In my opinion, **the challenges of EU funds management**, both in the pre-accession and post-accession phase, **can be described through three objectives**:

- Maximize utilisation of funds, to comply with the set timetable for their spending (the so-called N+2, i.e. N+3 rule) thus preventing the return of funds. This goal could be briefly presented as a message to the competent authorities: **"Spend funds quickly"**.
- Minimize refund, or reduce the number of irregularities by which Serbia would be obliged to return funds. This goal could be briefly presented as a message to the competent authorities: **"Spend funds properly"**.
- Maximize the impact (effectiveness) and value (efficiency) of funds used, i.e. in the form of a message to the relevant authorities: **"Spend funds in the best manner"**.

Translating these goals into the bureaucratic language of the European Commission, in figures and documents, the ideal model would be: 100 percent of funds spent, 0 percent of funds recovered and the fulfilment of priorities and indicators defined in the strategic documents which were the preconditions for obtaining EU funds.

These three goals cover all angles of Structural Fund and pre-accession fund management. At the same time, they present a potential conflict. In striving for a common objective, individual goals affect each other. The conflict exists between caution, which is the result of a system with strict control in order to avoid refunding, and the speed of spending: the need to spend funds within a deadline to avoid returning them. Therefore, it is necessary to create a balance. If the system is not under enough control, there is a risk that funds will be returned to the European Commission, and if the system is overloaded with procedures and controls, there is a risk that funds will not be spent. Risks, caution/urgency and adequate control/unnecessary bureaucracy need to be balanced.

We can conclude that the best management structure is one which allows for the development of the necessary capacities for using Structural Funds (learning by doing), and prompt spending of the funds, while at the same time enabling stronger procedures to ensure correct spending, precisely on those projects with the highest priority (with the project documentation).

"The institutional structure for EU cohesion policy implementation is primarily in the hands of the Member States. The European Union has set the principles of cohesion policy - concentration, partnership, programming, etc., as well as detailed requirements in relation to the management of resources and responsibilities. However, the very institutional structure and administrative system was established according to the national or, in some countries, regional practice."[34] The same principle also applies to the institutional structure for the management of IPA funds. There is no universal arrangement, only universal principles that need to be transformed into appropriate institutional arrangements for Serbian state authorities.

[34] *'Implementing Structural Funds in the New Member States: Ten Policy Challenges', European Policies Research Centre, Open Days Seminar, 12 October 2005.*

The similarity between the Structural Funds and the Cohesion Fund, available only to the Member States, and **the IPA instrument is reflected in a correlation in the objectives, principles and methods of fund management.**

The Structural Funds and the Cohesion Fund are directed at a number of predefined common objectives aimed at achieving a concentration of resources directed to where they are needed most. It is worth remembering that the objectives of Structural Funds and the Cohesion Fund are convergence, regional competitiveness and employment and the European territorial cooperation.

On the other hand, the Instrument for Pre-accession assistance has slightly different objectives. The main aim of IPA is to support the reform process that the European integration implies and to prepare countries for using EU funds after accession. Namely, if one compares the purpose of each of the funds and components of the IPA, it is clear that the IPA instrument lies halfway between the logic of pre-accession and the logic of cohesion.

The first component of the Instrument for Pre-Accession Assistance, i.e. support for transition and institutional development, will be reduced over time as the country develops and comes closer to EU standards, practices and membership. There is no equivalent to this component among the European funds, however, there is a possibility of financing projects related to institutional capacities (local authorities) within the framework of the ERDF objectives, while the possibility of financing technical assistance is provided in each of the funds.

The second IPA component - Cross-border cooperation, is transformed into European territorial cooperation, which is a part of the ERDF.

The third IPA component - Regional Development, is the equivalent of the European Regional Development Fund (i.e. the remaining two components of ERDF) and Cohesion Fund.

The fourth IPA component, which is used for financing human resource development is the equivalent of ESF.

Finally, the fifth IPA component, related to agriculture and rural development, will be replaced by EARDF after accession. The main objective of this fund is sustainable rural development, its goals are improving the competitiveness of agriculture and forestry through restructuring, development and innovation; improving the environment and the countryside and better land management, improving the quality of life in rural areas and encouraging diversification of economic activities.

As was mentioned earlier, the basic principles of the Structural Funds and Cohesion Fund are programming, concentration, co-financing and partnership.

In Serbia's case, programming EU funds requires the process of identification and project preparation, which will be financed by the IPA instruments, developed on relevant strategic and programme documents. The programming process is time-consuming and requires a strategic approach, inter-ministerial consultations, coordination among institutions and an appropriate capacity on the part of the state administration to identify priorities and prepare proposals. Without going into an analysis of the characteristics of IPA fund programming in Serbia, I would like to point out that the Serbian administration is a leader and paradigm among the region's states in terms of capacity for IPA fund programming.[35] The programming process, calendar of activities and the roles and responsibilities of relevant institutions have been regulated for years by the Action Plan for programming. Civil servants working on these tasks have shown a considerable level of knowledge and commitment during the programming process. Despite a large number of sectoral strategies, the main limitation in this process has been the absence of a clear strategic vision for individual sectors, which automatically affects the quality of projects which are formulated within this process.

[35] *Available at: www.evropa.gov.rs*

In accordance with the **principle of concentration**, the basic document which defines the priorities and purposes of the IPA funds is the Multi-Annual Indicative Planning Document (MIPD). In addition, during the EU accession process Serbia should prepare a series of strategic documents, such as the Strategic Coherence Framework and Operational Programmes, and National Strategy for Rural Development, which will direct the IPA funds intended solely for the candidate countries more closely. In this regard, the Government of the Republic of Serbia began extensive preparations and these documents are expected to be ready by 2010 and 2011. Unlike the Structural Funds, where the NUTS classification is one of the criteria for the concentration of funds, the IPA funds are not conditioned by the existence of a NUTS classification.

Regarding co-financing, the IPA Implementing Regulation stipulates that it is necessary to provide an appropriate amount of national co-financing for IPA funded projects.[36] The Law on Budgeting specifies: "**co-funding for EU development programmes** through the financial participation of the Republic of Serbia can be drawn from various sources of financing." It is extremely important to note that the cohesion policy funds do not replace national resources and that they represent an addition to national funds which are used to implement different projects. It is in this specification from the Law on Budgeting that we can see the contribution of regional policy. The rules and principles of regional policy will, over time, once they are adopted, change

[36] *It is envisaged by the Decision of the Government that the projects within IPA 2008 programme will be co-financed to the amount of € 37.55 million.*

this, therefore, instead of national funds being an addition to the European Union funds, the situation will be the opposite.

For Serbia, **partnership** represents the cooperation of all social partners (central and local government, civil society and the private sector) in the preparation and implementation of strategic documents and projects. At this moment, there is no institutionalised mechanism for partnership cooperation between the Government and social partners in the process of IPA programming. In the forthcoming period, it is necessary to enhance cooperation and create a mechanism to enable permanent and timely consultations between relevant state institutions and civil society organisations. A series of documents such as the Enlargement strategy, the Regulation establishing an Instrument for Pre-Accession Assistance (IPA), the Ljubljana Declaration, call for better dialogue with civil society.

The similarity between the Structural Funds and IPA can be seen in the goals, principles and models of management, in terms of strategic documents, organisational structure and financial rules. EU candidate countries are required to prepare multi-annual strategic and operational documents. The Strategic Coherence Framework, is a strategic document which provides a frame of reference for operational programmes under regional development and human resources development components of the IPA reflecting the National Strategic Reference Framework required from the member states. Similar rules of implementation, such as areas of financing, focus on major projects, monitoring, control, evaluation and audit, used for the Structural Funds also apply to IPA.

One may notice that IPA funds are not used exclusively for project implementation, but countries are being prepared for EU membership through the implementation of objectives, principles and methods of managing the funds. It is important that the Government has a unified approach to enable the use of existing institutions during the process of institutional development, but also the principle of simplicity, so the organisational structure does not involve a large number of institutions at different hierarchical levels. If the principles of uniqueness and simplicity are connected to the previously explained principle of decentralisation, as a non-essential prerogative for the absorption of Structural Funds, it is easy to conclude that the institutions that will manage the IPA funds, and later Structural Funds and the Cohesion Fund, will be formed at a central level.

What, then, would be the portfolio of local self-governments and regional development agencies? They would cooperate in identifying projects, be partners to the institutions at a central level, prepare project documentation and prepare and submit their own projects to different calls for proposals. The preparation of project documentation is

not an easy job. In order to finance one infrastructure project under the IPA Regional Development Component or under the European Regional Development Fund or the Cohesion Fund in the future, it is necessary to prepare:

- The general project;
- The pre-feasibility study;
- The confirmation that the pre-feasibility study is in compliance with the Operational Programme and the IPA Implementing Regulation;
- The preliminary design;
- The feasibility study;
- The framework agreement on co-financing;
- Simplified economic analysis, to ensure compliance with the IPA regulations (additional components for the feasibility study, e.g. co-financing, risk assessment, etc.);
- Review of Environmental Impact Assessment in keeping with the EC directives (85/337/EEC);
- The main project;
- Revision of the documentation;
- Verification of compliance with PRAG and Guidelines for IPA Regional Development Component;
- The implementing partner project;
- The major project application form.

Without the project documentation, there is no disbursement of the pre-accession funds, i.e. Structural Funds and Cohesion Fund!

3. EU Regional Policy as an Engine of Regional Competitiveness, Economic Growth and Employment

3.1 Introduction

Cohesion policy is a subject of debate at various levels, in political, economic and institutional terms. Some see this policy as a modern and effective way for the development of comparative advantages of the European regions. Others point out the lack of objective-oriented funds, and see cohesion policy as bureaucratic and protected by complex rules.

The common policies of the European Union are based on detailed analysis and data. Good practice worldwide confirms that consolidated systems and ongoing impact analyses of the public policies measures increase transparency, create more efficient and effective measures, i.e. better allocation of available resources and capacities. This part of the study will draw on official data and positions of the European Commission, but also on the opinions of independent experts dealing with EU regional policy.

The last European Commission report on cohesion, from 2008, shows that in the 2000-2006 period, the regions which were beneficiaries of the Structural Funds, under the first cohesion policy objective (convergence), recorded a 50 percent faster growth in GDP per capita than the rest of the European Union. In addition, the unemployment rate fell by 3 percent.

Changes in the economic structure of the regions from the traditional to the so-called sectors of the future are also easy to notice. The report shows that in the regions which are beneficiaries of Structural Funds, under the first two cohesion policy objectives, the sectors of financial and business services, trade, transport, communications and the sector of high technology, show a high medium-term growth potential. It is also relevant to mention that the high technology sector has been marked as one of the sectors in which the EU holds a competitive advantage, including the production of electrical and optical equipment, air and space equipment, pharmaceutical and surgical equipment.

The report, however, draws attention to the fact that in the future it will be necessary to direct more investment towards innovation, education and professional development. In other words, in the most developed regions the share of GDP invested in research and development is three times higher than in the poorer regions of the European Union, yet also 15 percent lower than in the US. Moreover, the European Union also invests a much smaller part of its GDP in higher education – 1.2 percent compared to 2.9 percent of the GDP in the United States.

It is further noted in European Commission reports that the average economic growth of regions with an average GDP under 50 percent of the Union's average, is 2.4 percent faster, when compared with the 27 EU countries, over the 2000-2004 period. The European Commission points to a reduction in the growth of GDP per capita in a number of richer regions, as well as to relatively slower growth in peripheral regions. According to the European Commission, the standard measures of cohesion policy have contributed to reducing the differences within the Union and more balanced overall development.

Nevertheless, EC reports do point to regional differences among many member states as a persistent problem. There are still huge differences between the richest and poorest regions in a number of member states. In Slovakia, for example, GDP per capita in the capital region leapt from 116 percent of the EU average in 2001 to 148 percent in 2005, while during the same period the increase in the poorest regions was from 40 percent to 43 percent. Despite all the positive effects of cohesion policy, such large differences in the level of regional development are alarming.

3.2 Different views on the effects of cohesion policy

Consensus regarding the effects of cohesion policy does not exist. On the one hand, the European Commission expresses an explicitly positive attitude in which it highlights: "Structural Funds and the Cohesion Fund through investments in infrastructure and human resources, encourage the development of competitiveness and productivity in the regions and in the long term contribute to better living standards and income."[37] On the other hand, authors like Boldrin and Canova have a negative attitude and point out: "We can not find any clear signal that the cohesion policy contributes to the reduction of regional differences. Our conclusion is that regional and structural policy have a weak impact on economic growth." These authors doubt the long-term effects of EU regional policy: "The current (EU) policy is ineffective, based on wrong, i.e. not proven economic policy, poorly established, inefficiently implemented and a source of unsound financial flows and, in some cases, a source of corruption".[38]

[37] European Commission, Sixth Periodic Report on the Social and economic situation and development of the regions of the European Union, 2000, page 11

[38] Molle W., European Cohesion Policy, 2007, page 230

Different analyses regarding the effects of cohesion policy, which have been conducted over the years, confirm this vague picture of the results of EU regional policy. Unlike Boldrin and Canova, who focused their research on the 1960-1980 period and cannot find any positive effects of cohesion policy, Cappelen, Beugelsdijk and Eijffinger put forward a different opinion. Cappelen investigated the regional development of 105 European regions during the 1980-1997 period, and the impact of Structural Funds on these regions. He concluded that the funds intended for EU regional policy implementation have had a positive effect. Similarly, Beugelsdijk and Eijffinger, who examined the effects of Structural Funds on economic development in two states over the 1984-2002 period, concluded that the cohesion policy contributed to convergence among countries. Ederveen and Gorter in 2002 and Rodriguez-Pose and Fratezi in 2003 expressed less positive opinion on the effects of cohesion policy. Ederveen and Gorter carried out a research on the effects of Structural Funds on 183 NUTS II regions and concluded that the EU regional policy did have positive effects on economic development, but that it was not able to bring about an ideal convergence of income. Despite economic growth, differences in income remain unchanged. Rodriguez-Pose and Fratezi came to the conclusion that Structural Funds, in the 1989-1999 period, had limited positive effects or no significant effects on the regions under Objective 1.

However, despite the evaluation of the European Commission, the Committee of the Regions and other relevant stakeholders on the importance and positive effects of EU regional policy, Structural Funds and Cohesion Fund, some authors challenge their effectiveness in reducing regional differences across Europe (Martin, 1999; Hurst, Thisse and Vanhoudt, 2000; Puga, 2002). Some authors like G. Terborn and A. Matthews do not agree with the official reports of the European Commission. According to G. Terborn it is not true that the existence of the European Union has led to economic convergence among member states and furthermore, "the European Union has not in any way contributed to territorial convergence." Indeed, he believes that convergence among the 12 member states would have taken place even without the European Union, during the economic boom in the fifties and sixties, which ended in 1973.[39]

[39] Therborn, G. European Modernity and Beyond: The Trajectory of European Societies 1945–2000, 1995, page 195–196.

In his opinion, membership of the European Union has no clear effect on the poorer member states. The rates of convergence alone show that European policies per se do not generate the development leading to convergence. The decisive factor is the way in which an individual member states responds to economic opportunities in the European Union. A. Matthews supports this theory and believes that the best argument for convergence, the Irish example, is "largely a statistical illusion." He believes that if the performance of Ireland was to be calculated as gross national product, instead as GDP per capita, the figures would be quite different due to the high incomes of large multinational companies in Ireland, which are shown in GDP, but not in GNP. Matthews also believes that by looking at the development level of regions, it can be concluded that the gap increased in the late eighties. The Irish case shows how difficult it is to calculate the individual contribution of regional policy to economic development. Many factors influenced the performance of Ireland. In the sixties, Ireland began a reform of the education system and introduced new methods and technologies. In the seventies Ireland introduced new information technologies and reduced corporate income tax, thus attracting multinational companies from the European Union and the United States. Structural Funds arrived in Ireland only in the late eighties, when the generation that had gone through the reformed education system of the sixties were ready to lead and promote the Irish economy."[40]

[40] *EU Integration Office, EU Regional Policy, 2004, page 60*

Rodriguez-Pose and Fratezi emphasize that despite the concentration of Structural Funds on infrastructure and to a lesser extent on business improvement, the results do not justify the funds invested. Support to agriculture has had short-term but not sustainable positive effects. Only investment in education and human resources has had positive medium-term effects. The authors believe that despite the reform of regional policy, the European Union is far from achieving its economic and social cohesion objective, and they also challenge the effectiveness of EU funds in contributing to sustainable economic growth and reducing the differences between the periphery and centre of the Union. Two facts explain this scepticism. The first is the failure of the regions under Objective 1 to get beyond the threshold set for receiving assistance under this objective, although various interest groups have probably played a role in this. The second fact is a lack of convergence which European regions have experienced since the reform of Structural Funds.

In his study "An Agenda for a Reformed Cohesion Policy" Fabrizio Barca tried to analyse both lines of argument and to show the advantages and disadvantages of cohesion policy in an objective manner. As Barca states, "on the one hand, cohesion policy has created:

- several features which are indicated as a new paradigm;

- a trail of good results, both in cases where it was implemented as an integral part of national development strategies, and in cases of local projects created with the support of the European Commission;
- partnerships and new institutions, both vertically between the European Commission, the central authorities and regional/local authorities, and horizontally;
- a contribution towards long-term institutional capacity building;
- a network among various stakeholders across Europe and enabled a constant exchange of experiences and good practices.

On the other hand, the disadvantages can be presented in the following way:

- a lack of strategic planning and policy development based on the needs of a specific territory;
- a lack of focus on certain priorities and difficulties to separating efficiency from social inclusion;
- methodological and operational problems that limit the correct use of indicators and objectives and, therefore, an adequate analysis of what functions and what does not in terms of the effects of cohesion policy;
- a lack of political and strategic debate on the results and future of cohesion policy".[41]

[41] *Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, April 2009, page 110.*

How can such different attitudes be explained? To be able to take one or another position, one must first determine what has changed in a given region in comparison to the original initial state. To draw an objective conclusion, one needs to make an objective assessment of the achievements compared to the objectives, an assessment of the results and their sustainability, activities undertaken and employment of funds. To make an objective assessment and determine the efficiency and effectiveness of a programme or a project, one can, indeed must observe methods based all the relevant factors needed to determine the effects of a programme or project in a specific territory and for a specific period. Based on the above, it is easy to conclude the methods of **evaluation are a key factor in drawing conclusions on the effects of cohesion policy**.

Conclusions about the effects of cohesion policy can be drawn from the evaluation of specific programmes and projects. The subjects of this type of research are of diverse scope, and range from different types of training seminars and cross-border cooperation, to large infrastructure projects. It should be pointed out that the quality of evaluation differs from case to case. On the other hand, there is a growing number of experts who are trying to determine the effects of cohesion policy, using standard methods of empirical research. Finally, in assessing the effects of cohesion policy, which is primarily implemented by the European Commission, macroeconomic models are also in use.[42]

[42] *Ex-post evaluation of Cohesion Policy Programmes 2000–2006*

One of the reasons why so many different opinion emerge regarding the effects of cohesion policy on economic growth is the use of different methods in assessing these effects. Furthermore, there are disadvantages accompanying each of these methods. "First, the lack of sufficiently long and detailed regional time series for many variables limits the possibilities of using time series techniques and second, the time period during which the Funds have operated in their current form is relatively short. This is particularly problematic for the identification of possible Funds-induced long-term supply-side effects due to *inter alia*, enhanced human capital and better infrastructure. Such effects are indispensable for the Funds to have an impact on the recipient regions long-term growth performance. However, in contrast to the more easily identifiable short-term demand-side effects of the Funds, supply-side effects can only be identified with considerable time-lags".[43]

[43] Reiner Martin, The Impact of the EU's Structural and Cohesion Funds on Real Converegence in the EU, 2003, page 11.

However, no properly implemented analysis or evaluation can show positive effects of poorly planned and poorly implemented programmes or projects, regardless of their value or the sector to which they refer. In this regard, alongside causes arising from the use of different methods, it is **particularly important to point out the different nature of the programmes and projects financed from Structural Funds and the Cohesion Fund, which are not always adequate and in compliance with the specific needs and problems of given regions**. Thus, for example, denying the need for investment in human resources in southern Italy, programmes actually contributed to the stagnation of development in that region. The focus of the Greek programmes on infrastructure is one of the reasons why other factors relevant to economic development were being less developed. Rodriguez-Pose and Fratezi (2003) take a similar position, and point out that in many cases, regional programmes have failed to achieve long-term growth and only managed to meet short-term needs, as is the case with large transport infrastructure projects, which brought more benefits to the rich regions rather than to the poor regions.

Another reason for this discrepancy between the impact of projects on economic growth and real economic growth can be identified in **weaknesses in programme/ project implementation**. Throughout all programming periods many countries failed to absorb all of the funds allocated. Thus, for example, during the implementation of the programmes under Objective 1 in the 1994-1999 programming period, while Spain, Portugal, Ireland and Germany absorbed almost 90 percent of the Structural Funds, Italy, France and Great Britain were at 67 percent. Whereas ninety percent of infrastructure projects were implemented in Portugal and Ireland, only 66 percent were implemented in southern Italy and 33 percent in Greece. It should be noted that the implementation of programmes/projects within the regions under Objective 2 recorded even more difficulties. Weaknesses in the implementation of programmes/ projects are not only related to inadequate institutional and managerial capacities, but also to the difficulties and lack of adequate project documentation necessary for the implementation of EU funded projects.

In accordance with the principles of project management, the effects of one programme or project can be determined based on objectively defined indicators. **The quality of such indicators** and the lack of a legislative framework that might establish basic indicators, common to all member states, are some of the **reasons why data on the effects of cohesion policies differ**. The DG Regio research, as well as other sources of data, enabled DG Regio to determine whether 44,000 kilometres of new or reconstructed roads, 11,700 kilometres of new or reconstructed railway network and a 17,200 km network of water supply had been built during the 2000-2006 programming period. However, in terms of 'time saved due to improved transport infrastructure', data are only available for some countries and in units that are not comparable.[44]

[44] For example, Spain has saved around 1.2 million hours of travel time.

The truth about the effectiveness of cohesion policy probably lies somewhere in between these two diametrically opposite positions.

The effects of EU regional policy are, by definition, difficult to evaluate for the simple reason that it is very difficult to isolate **regional policy from other sources of economic growth** and determine the level of development which the economy would have reached if there have been no interventions through the regional policy instruments.

There are a number of factors that determine the competitiveness of the regions and therefore their potential for economic development and job creation. Stable macroeconomic policy, combined with the implementation of structural policies, is the basis for improving competitiveness. Another important factor is the efficiency and effectiveness of state administration at all levels. For instance, high level of corruption, an ineffective judicial system and high rate of grey economy (which are all symptoms of weak public administration), directly affect the overall competitiveness of a country or a region. Activities of the public sector may also affect productivity and growth, by changing the level of productivity in the public sector and acting as a trigger for increased productivity in the private sector. On the other hand, economic growth and employment are conditioned by the development of human resources, in the form of new skills, knowledge and innovation, and the development of infrastructure, transport, telecommunications etc. Cohesion policy contributes to the development of all these factors.

In recent years, different and variable levels of growth in both developed and developing countries, as well as progress in economic theory and empirical research, have contributed to the fact that experts and politicians alike are becoming much more cautious in providing explanations for growth, differences in the level of development, as well as suggestions on what governments can or should do to stimulate development. However, "There is, however, a strong consensus on one aspect, namely, that "agglomeration" is one of the key drivers of growth and development".[45]

[45] Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, April 2009, page 11..

It is a well known fact that traffic jams, price increases, pollution and other negative effects which impact health, the environment and quality of life, increasing infrastructure costs, social tensions and causing a rise in levels of crime, can be the consequences of agglomeration and can have the capacity of annulling or slowing down economic growth and development. Specialisation can affect the vulnerability of agglomeration to external events in the global economy, as the current financial crisis demonstrates. At the same time, opportunities for economic growth and development are greater in the areas with less concentrated economic activities. This can be seen in many rural areas with high rates of development. In the 1995-2005 period almost half of 78 city regions in OECD countries had a growth rate below the national average, including Brussels, Copenhagen and Oslo.

Nonetheless, agglomeration is only one of the engines of economic growth and development. For a region to develop economically, a network of conditions is necessary, such as developed network of roads, information technologies, a highly educated workforce, etc. In Europe, where the opportunities for the development of large agglomerations are limited and polycentrism is widespread, economic development can be accomplished by "networking between major agglomerations and their hinterland" and by "dense networks of big or middle sized cities".[46] What starts this engine? Measures of cohesion policy.

[46] Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, April 2009, page 18.

3.3 The general overview of the effects of cohesion policy

The aim of cohesion policy is to support key areas such as infrastructure (mainly transport and environment), productive investments (support to small and medium-sized enterprises, research and technological development and innovation) and investment in human resources. During the 2000-2006 period support was focused on these three key areas under Objective 1 and 2 and €143.6 billion were spent in total, or €20.5 billion per year.[47] While the focus in regions under Objective 1 was on the basic needs of infrastructure development (especially the development of transport infrastructure) and human resources, in the regions under Objective 2 investments were directed more towards the development of small and medium-sized enterprises and research and technological development. Objective 3 was fully focused on the development of human resources.

[47] Tokom perioda od 1994. do 1999. godine, kroz ERDF i Kohezioni fond, utrošeno je 109.6 milijardi evra, odnosno 18.3 milijarde evra godišnje.

According to the research of the European Commission for the 2000-2006 budget period, for every Euro spent through the common cohesion policy in the regions under Objective 1 (convergence), an additional €0.9 on average was invested from other sources. Likewise, in the regions covered by Objective 2 (regional competitiveness and employment) for every Euro invested through the EU cohesion policy, investments from other sources averaged at €3.

The importance of these funds for the member states is reflected in their contribution to public investments, especially in four member states. "In the 2000-2006 period, transfers of funds from the European Union averaged at around 60 percent of the total public capital expenditure in Portugal, 48 percent in Greece and 24 percent in Spain. During this period, transfers to Italy, Germany and Ireland were estimated at about 9 percent of total public investment. During the two financial periods, 1994-1999 and 2000-2006, the transfer of funds decreased in proportion to the total public investment in most countries of the 15 member states, particularly in Ireland and Greece, but increased in Portugal, Germany, Finland, Sweden and Austria".[48]

[48] DG Regio, Fourth Report on Economic and Social Cohesion, 2007 (source of data on the effects of cohesion policy in chapter 3).

These funds have almost certainly increased public investment in relation to the GDP all around Europe, especially in the cohesion states, since the principle of co-financing implies that national funds remain at least at the same level as they would be otherwise. Public investment during the 2000-2005 period took 3.5 percent of the GDP, about 25 percent more than they would have without the transfer of these funds. Lack of support through the EU funds would have resulted in a reduction of expenditures for the development of the basic infrastructure necessary for the fostering of long-term competitiveness and potentials for growth, or else would have led to taxes increases, with the possible reduction of spending in equally important areas such as education and social programmes.

On the basis of this ability to use the EU Structural Funds, there has been an increase in the **ability of the public sector** in these regions **to cooperate with other international financial institutions and the banking sector**, which enabled additional sources of investment. During the 2000-2006 programming period, an average of 71 percent of borrowed funds were directed towards regional development. In this period, € 184 billion were borrowed, 74 percent in the form of direct loans. Half of this amount was intended for regions under Objective 1. EIB loans are important for the way in which they connect funds from the European Union and commercial banks, as well as in providing expertise. Furthermore, these funds can be used as national co-financing of EU funded projects. Similarly, EIB loans provided support to regions under Objective 2, by concentrating on infrastructure projects, especially in less developed regions. Moreover, EIB funds can be employed for the evaluation of major projects. At the the European Commission's request, the EIB evaluated more than 200 projects between 2000 and 2006. What is more, Structural Funds and Cohesion Fund have created ripe conditions for the **establishment of continual cooperation between the private and public sectors**, in the form of public-private partnerships, which represent a long-term source of financing for other development projects in the regions.

Another direct impact of Structural Funds is the **strengthening of the concept of strategic planning** in development policies and investment programmes on both the national and regional levels. Public investment must be carefully identified and planned at all levels of authority, from central to local. In this regard, it is important to emphasize that cohesion policy played a key role in the strategic planning of priorities in all European regions, linking them with priorities on the national and EU levels. In addition, cohesion policy also played a key role in promoting areas which had not been the focus of regional and national policies. As a result of the implementation of a number of pilot projects financed through Structural Funds, other national and regional policies were elaborated in fields such as the research and development of new technologies, innovation and entrepreneurship, active employment policies and social inclusion. Therefore, cohesion policy has obliged regional and national authorities to apply the concept of comprehensive long-term strategic planning in economic development, including multi-annual budgeting.

It should be noted that **support to underdeveloped regions leads to a spill-over to developed regions**. Thus, support to underdeveloped regions, the elimination of structural deficiencies, such as underdevelopment, unemployment, outdated technology and structures of production, overpopulation and pollution, has positive effects on developed regions: preventing unwanted migration of the labour force, increasing imports of products from developed regions, improved transport connections etc

Analyses show that the instruments of the EU regional policy have had a significant impact and **positive effects on the Lisbon and Gothenburg strategies**. First, the complementarity between these strategies and the Structural Funds and Cohesion Fund can be seen in the matching of certain priority groups, such as human resource development, transport, environmental protection, research and innovation, entrepreneurship and social inclusion.

This similarity can also be demonstrated through the allocation of Structural Funds. For instance, around 50 percent of the Structural Funds is allocated for objectives of interest to the Lisbon strategy. However, there is a clear difference in the allocation of funds for

some countries and regions. This connection is significantly higher in developed regions, between 67 percent and 85 percent, while in the less developed regions it ranges between 18 percent and 33 percent.

Deficiencies which hindered a greater contribution of the Structural Funds to the Lisbon and Gothenburg strategies can be seen in the inefficiency of authorities responsible for implementing EU regional policy, insufficient of sources of national funds and insufficiently precise national policy, especially in the field of sustainable development.

According to the relevant indicators measuring Lisbon agenda priorities on a regional level, especially good results were achieved by Danish regions, most Swedish regions, the southern region of Finland, regions in the south-east of Great Britain, the northern Netherlands and Bayern in Germany. All these regions obtained the highest classification, successfully scoring in five out of six indicators. The regions scoring lowest were in Romania, Poland and Slovakia, regions distinguished by low productivity, low employment rate and low level of investment in research and development. The regions of the new member states, Cyprus, Estonia, Lithuania, Slovenia and the Czech Republic, attained an average index of success in meeting the Lisbon objectives.

It should be noted that cohesion policy is not the only instrument, and that it cannot meet the objectives of the Lisbon and Gothenburg strategies on its own. It is necessary to ensure complementarity and coordination with the strategy recommendations at national, federal, regional and local levels (depending on the state), to ensure faster economic growth, new jobs and sustainable development.

3.4 Cohesion policy in the service of knowledge, employment and entrepreneurship

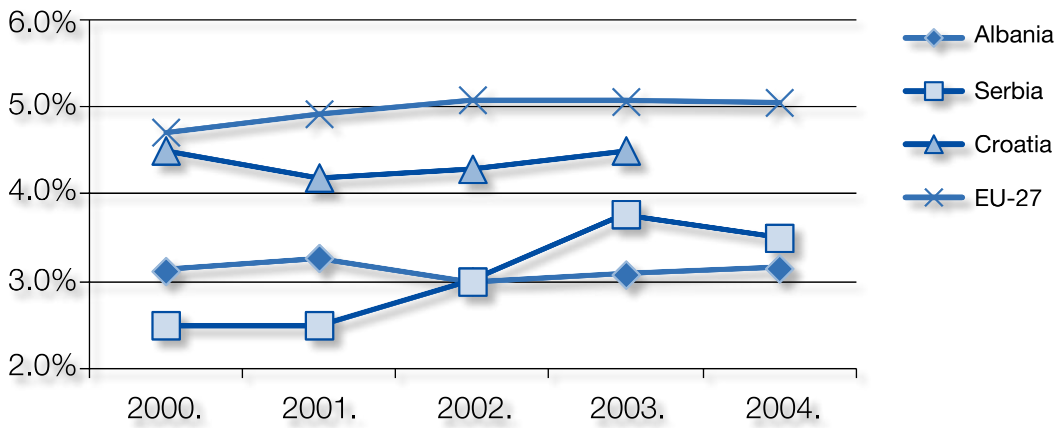
Numerous studies clearly indicate that even a moderate increase in the quantum of knowledge in a society can significantly increase the GDP. It can also lead to greater investment in scientific research, and more pronounced general economic development of society. The European Union has long been aware of this, and it is therefore clear why the creation of knowledge society has been chosen as the key priority in economic development.

Education and Employment

Research shows that investing in human resources contributes to economic development consistently. Similarly, investment in human resources, primarily in education, has effects both on individuals and society as a whole. Analyses show that

[49] *Martin R., The Impact of the EU's Structural and Cohesion Funds on Real Converegence in the EU, 2003, page 10.*

investments in human resources increase individuals' capacity for innovation as well as the adoption of new technologies and therefore combine these capacities throughout states and regions.[49]

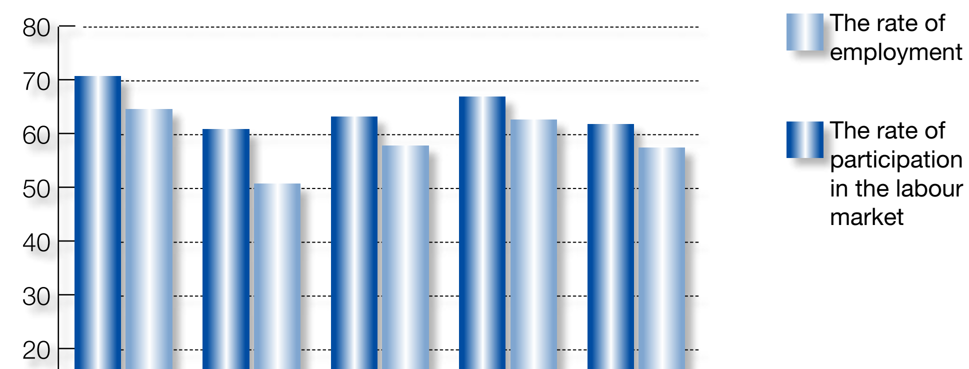


Graph 1.

Investments in Education, GPS (percentage)

Consequently, additional investments that favour the consolidation of regional innovation systems and in particular the economic, social and institutional dimension of companies and individuals, has a potentially important effect on **strengthening regional competitiveness**. During the 2000-2006 programming period, the EU regional policy allocated €69 billion, or about 30 percent of Structural Funds to human resource development and employment opportunities through the European Social Fund. However, the contribution of cohesion policy to public investment in the member states varied from state to state, from 2 percent in Denmark to 15 percent in Italy.

The largest contribution of cohesion policy to employment and social welfare is **support to individuals**. It is estimated that an additional year of education or an adequate training program increases productivity by 5 percent immediately, and by an additional 5 percent in the long term. Likewise, the connection between wages and training shows that one additional year of training can increase a salary by up to 5 percent. Support for the modernisation and development of employment services was aimed at improving capacities to provide assistance to individuals and apply new methods and programmes, and to predict future trends and needs of the labour market.



Graph 2.
Participation in the labour market and employment

Apart from the programmes implemented under Objective 1, those implemented under Objective 2 have been highly significant in the **creation of new jobs**. In six states where an assessment was carried out, accounting for 54 percent of the funds allocated through Objective 2, it is estimated that more than 450,000 new jobs were created.

Moreover, a **sustainability assessment of the jobs** created was carried out as was an assessment of their effect on regional labour market. In western Wales (West Wales and the Valleys), an Objective 1 region, almost all of 40,000 newly created jobs have been sustained, and almost half of these jobs were taken by unemployed individuals. Thus, about 20,000 persons are no longer on the unemployment register. According to estimates, about 200,000 jobs were created in France up until 2006, with sustainability at 75 percent. Of this number, 44 percent were the result of support to small and medium enterprises and 5 percent to large enterprises; while in both cases investment went to research, technological development and tourism. However, only 32 percent of jobs were taken by women.

The link between the Structural Funds and the creation of jobs under Objective 3 is not so easy to determine. Although it is easy to determine the form, amount and beneficiaries of funds, the effects on employment remain insufficiently precise. For example, in Austria almost 143,000 people received some kind of individual support which enabled half of them to find a job. Moreover, special measures aimed at gender equality provided support for 56,000 women, of which 68 percent found a job. In Spain, training was provided for almost 2.5 million people. On the other hand, measures aimed at vulnerable categories, such as the economically marginalised and the disabled, were less efficient, the success rate in newly created employment ranged only between 10 and 20 percent.

Analysis of the implementation of active employment measures has shown that training programmes are most active when combined with investments in the private sector or in other forms of support such as mentoring (40-50 percent improved efficiency). In Italy, those who have successfully completed training programmes had a 26-31 percent better chance of finding a job over the ensuing 12 months. In England, the average employment rate was 14 percent higher six months after the completion of the above-mentioned combination of programmes than 12 months earlier.

In addition, EU regional policy has played an outstanding role in **promoting gender equality** both within special projects and through the support of gender equality as an inter-sectoral priority within all projects. Nonetheless, despite specific results, percentages for female employment are much below those of male employment, and differences in career advancement have not been eliminated.

The Regional Policy of the European Union has provided support to the **development of links between the economy and education**. In many Member States, support through funds provided by the European Union has enabled the reform of education and training system (such as the alignment of curricula with labour market needs and teacher training) and contributed to developing the concept of lifelong learning. Training seminars and adult education have been co-financed in Portugal. Almost 10,000 people, mostly unemployed, aged between 25 and 44, of which 75 percent women, participated in different forms of education and training. Upon completion of these programmes, their qualification were formally recognized; 25 percent pointed out that it would be almost impossible to find a job without these kinds of programmes, 29 percent continued on to further education, while another 12 percent said that they would continue their education over the next few years.

In addition to the measures undertaken in the field of education, evaluation reports and studies indicate the numbers of people who have gone through **different types of training** financed from the Structural Funds. "Seven million people in the regions under Objective 1 passed through different types of training. However, there are no data regarding the extent to which specific trainings have improved their qualification profiles in relation to labour market needs and how they have enabled the integration of the unemployed in this market. The Spanish Evaluation Report highlights the need for better monitoring of training programmes in order to improve them (CEET, 2005). In contrast to these data, the Evaluation Report of the Objective 1 eastern German region states that about 950,000 people, mainly young people and people with disabilities, went through different types of training, and that these efforts have contributed significantly to the employment of those who participated in this type of training (Stumm and Robert, 2003). In Ireland, 150,000 people were included in the training programme, but the effects on the labour market have not been determined (Fitzpatrick, 2003). Evaluation reports on Italian regions under Objective 1 emphasize that, despite the fact that about 380,000 people were involved in the programmes of formal education and training programmes for the unemployed, the measures that were implemented did not have a significant effect on employment due to the lack of a clear employment strategy and lack of cooperation with the private sector (Ismeri Europa)".[50]

50 Europainstitut from Vienna, EU Regional Policy: Experiences and Future Concerns, 2004, page 25

These data imply that Structural Funds significantly contributed to the development of education, training and employment. However, **it can be objected** that all the measures planned and implemented within the programmes and projects under the cohesion policy have not fully concentrated on the demands and needs of the labour market, though directed at creating a greater number of jobs and integrating the unemployed. Balancing the labour market requires a policy aimed at supply, supporting adjustments of human resources to structural changes, and demand, creating more favourable conditions for new investments. Furthermore, the fact that in some cases the results *did not fully comply with the principle of gender equality* cannot pass unnoticed, and neither can the fact that the projects aimed at vulnerable groups, such the disabled, *failed to provide an appropriate level of sustainability*. Finally, there is a considerable amount of room for improvement in the health and safety of workers.

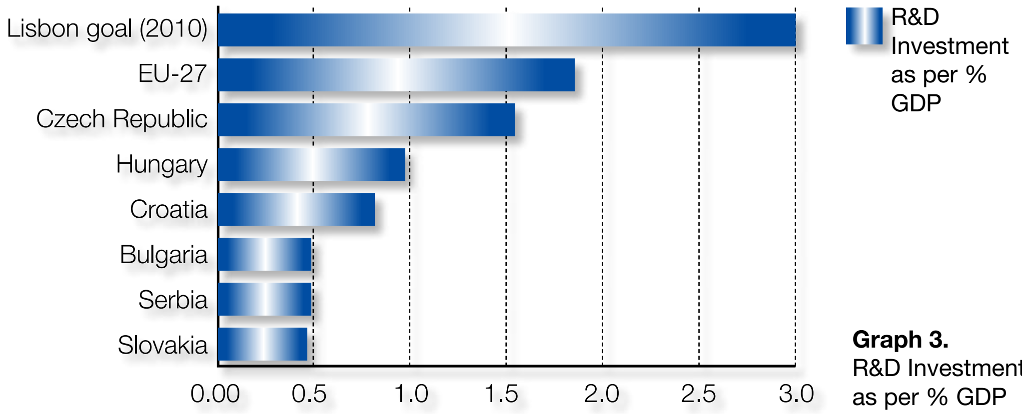
Development of Science and Technology

The rapid progress of science and technology and the challenges of globalisation are making knowledge, its productive use and its continuous renewal and increase, the fundamental challenge of a competitive economy and society. Research and the effectiveness of the transfer of its results into goods, services and processes is one of the fundamental levers in the creation of a competitive economy and knowledge society. At the same time, information-communication technology has proven to be a fundamental infrastructure for a competitive society based on knowledge.

Reports indicate that it is very difficult to stimulate innovative activities in the regions under Objective 1. "In the South of Italy, R&D support benefited universities but could not change innovation activity in the (small and medium) enterprise sector" (Ismeri Europa, 2002). The same scenario was seen in the Spanish regions under Objective 1, which, due to poor results, had to reduce the level of funds earmarked for research and innovation (CEET, 2003).[51]

51 Europainstitut from Vienna, EU Regional Policy: Experiences and Future Concerns, 2004, page 25.

During the 2000-2006 period, the support of Structural Funds to the regions under Objective 1, aimed at research and technological development, ranged between 5 percent (Spain) and 18 percent (Lithuania) of the total investment within this objective. On the other hand, investments from national funds and the private sector were even more important. On a regional level, investments into research and technological development were at 5 percent in southern regions, the poorest and remotest areas, and 15 percent in northern regions.



Graph 3. R&D Investment as per % GDP

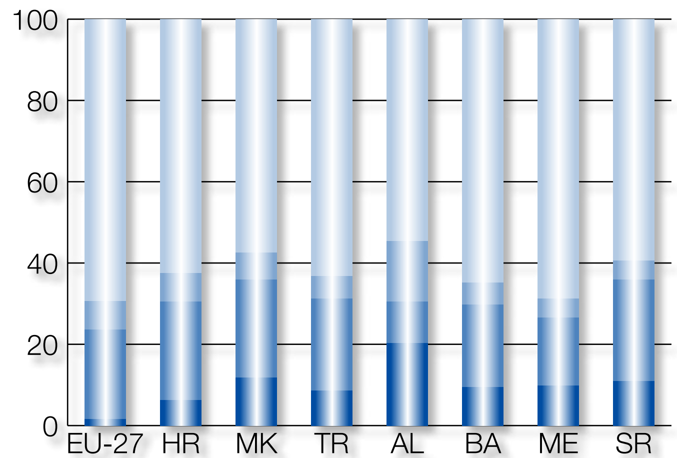
Most programmes were focused on infrastructure development, while projects investing in innovative measures were financed to a lesser extent. These innovative measures were aimed at improving relations between the private sector and research institutions. Therefore, reports on the implementation of these projects highlighted a risk that investment in research, technological development and innovation could be de-contextualised from the region in question and that scientific and technological complexes and incubators might be constructed without the necessary services connecting research to the economy.

Nevertheless, most reports indicated that **Structural Funds significantly contributed to the development of innovative capacities in the regions**. In Catalonia, a programme under Objective 2 included about 6,000 researchers in the region (21 percent), and therefore contributed to private sector investment in the area of information technologies to the amount of € 1.4 billion. Only one project in the Italian region of Basilicata included a combination of training and development of information technologies in households, in order to improve the quality of life of individuals. This project enabled 36 percent of households to have an Internet connection by 2006, compared to 1999, when only 4 percent of households were connected (the average for regions under Objective 1 was 29 percent).

The growing importance of the synergistic effect of science and practice finds confirmation in today's world, to achieve success not only small businesses but the entire business community needs to incorporate the knowledge and experience of both large corporations and academic and scientific institutions and indeed vice versa. Given the above, the main objection to the programmes implemented in this area are *the lack of correlation between the educational and scientific research system and the sector of small and medium enterprises, an insufficient capacity to managing complex projects, and insufficient support of the state administration in the implementation of this type of project*.

Entrepreneurship

Small and medium enterprises are the pillars of the economy. However, small and medium enterprises, especially during their initial phases, often have problems accessing capital, knowledge and the exchange of experiences. EU regional policy aims at solving these problems through a **combination of direct investment and business support services, training, mentoring and the creation of clusters**. In the 2000-2006 period a large number of small and medium enterprises availed of EU assistance. The Spanish programme of support to small and medium enterprises alone provided financial support, advice and training for 227,000 small and medium enterprises (about 28 percent of the total number). In seven Spanish regions under Objective 2, a total of 95,000 SMEs received assistance from the EU funds, primarily for the purpose of expansion onto international markets. The evaluation of the Steiermark programme in Austria found that 75 percent of projects related to the development of business were conducted by small and medium enterprises, which was significantly higher than expected. In the UK, about 250,000 small and medium enterprises were supported by various measures in the regions under Objective 1 and 2, of which 16,000 received direct support. Efforts to assist companies established by disabled persons during the start-up phase gave different results. Projects in eastern Scotland, a region under Objective 2, had some success, while funds spent for this purpose until 2004 in Ireland, in the 2000-2006 period, amounted to only 36 percent of the total designated funds.



Graph 4. GDP Average in 2006 (% of total)

Based on the abovementioned facts, it can be concluded that measures of EU cohesion policy have contributed to the development of entrepreneurial culture and awareness, the organisation of trainings in various fields that are important for business management, incentives for partnerships and clusters of entrepreneurs, creating incubation centres and attracting favourable sources of funding for the establishment and operation of small and medium enterprises.

Although not explicitly mentioned, efficient regional policy also contributes, **in the long term, to reducing public expenditure**. Public support for companies to locate their enterprise in underdeveloped regions should contribute to increasing employment and activating other resources in the long run. This reduces the public expenditure in social protection for unemployed people, and increases fiscal revenues at the same time. In this way, over employment is simultaneously being promoted and reduced, i.e. artificial employment in public administration, thus increased public spending, commonly used to boost employment in underdeveloped regions.

However, in many cases it was found that *direct assistance to small and medium enterprises could be planned and focused in a better way*. Based on these experiences, evaluation reports suggest the use of so-called soft measures to build skills and networks of small and medium enterprises, and increase loans designed for small and medium enterprises, instead of measures which would be taken in the absence of Structural Funds. *Underdevelopment of public – private partnerships* was also observed in certain states, especially in science and research projects (except in Austria, Denmark, Finland, Germany, the Netherlands, Sweden and the UK).

3.5 The improvement of territorial cohesion through the development of transport infrastructure and environmental protection

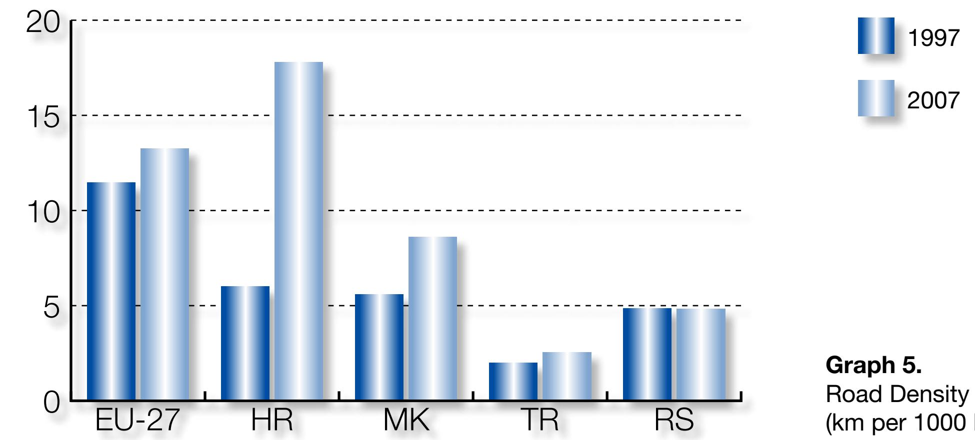
Infrastructure is one of the preconditions for economic growth. Inefficient infrastructure services discourage or impede investment, and hence bring down the rate of economic growth, which affects unemployment.

On the other hand, planning and development, combined with the principles of environmental protection, are an integral part of the overall development strategy; the European Union aims at a development that preserves and enhances the quality and value of the territory and environment.

Transport Infrastructure

An efficient transport system is a key factor of regional competitiveness and development. This area is one of the key spheres of cohesion policy. During the 2000-2006 period, significant funds were spent on road transport (47 percent of the total funds earmarked for the development of transport), and on rail transport (31 percent of total funds).

During this period, particularly large investments were made in Spain and Portugal. These programmes co-financed 1,200 km of roads, and **saved about 1.2 million travel hours annually**. In this period, about 450 km of railway lines were built for high-speed trains between Madrid, Zaragoza and Lerida. The Spanish TGV network (a network of fast trains) was expanded in this period to the lines Lerida-Tarragona-Barcelona, Cordoba-Malaga, Madrid-Valencia-Levante and Madrid-Valladolid (a total of about 850 km).



Graph 5.
Road Density
(km per 1000 km²)

As a result of these investments, a strategic evaluation of transport, carried out in 2006, noted a **very well developed road network** in Spain and Portugal, an increase of 47.8 percent and 200 percent respectively in the 1995-2004 period. Apart from these two countries, plus Cyprus and Slovenia, all other states had a lower coverage of road network than the European average. Investments in airports have also contributed to **reducing the problems of access to some regions**, especially the more remote ones.

An evaluation report on investment in transport infrastructure in the regions under Objective 1 indicates that the infrastructures which were built improved connectivity between the regions and other national centres and reduced travel time by 20 to 50 percent on average. Moreover, a **significant effect was noted on employment** due to the implementation of public works.

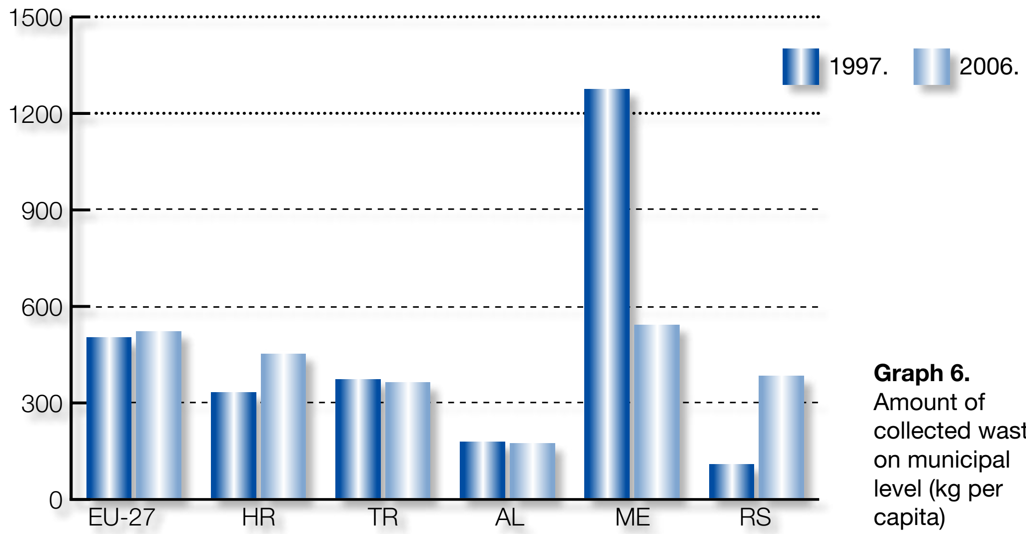
Investments in projects of interest to urban transport, such as the construction of underground urban train systems (e.g. metros in Athens and Thessalonica) stimulate inter-regional development and at the same time efficiently increase employment (e.g. commercial activities within stations). This form of transport reduces travel time, traffic jams and pollution.

What is more, cohesion policy has contributed to the development of other forms of transport. The early nineties saw small investment from national funds in railway infrastructure, while the 2000-2006 period brought investments of €4 billion through the Cohesion Fund.

However, it should be noted that investment in transport, depending on the type, have a double impact on the environment – the direct impact of the infrastructure object itself and an indirect impact on air pollution and noise, from increased traffic. Air pollution in particular, presents a problem in large urban centres such as Athens, Dublin and Lisbon.

A direct impact of investment in transport can be seen in increased employment, primarily in the construction sector. In addition, the demand for building materials and machinery increases. There is no doubt that these effects are short-term and last as long as the works. Long-term effects of a particular investment depend on existing or additional investments in the region, labour force qualifications, development of entrepreneurship etc.

As it can be noticed, efficient and safe transport infrastructure allows productivity growth, facilitates and encourages the mobility of people and goods, and by reducing isolation creates the preconditions for balanced regional development. A direct contribution to the development of transport infrastructure is seen not only in reduced travel time and increased employment, but also in greater transport safety, attracting international transit flows and improving the attractiveness of a certain territory for additional investment and tourism, as well as developing the cross-border trade, which are all preconditions for balanced regional development.



Graph 6. Amount of collected waste on municipal level (kg per capita)

On the other hand, a *lack of maintenance of certain sections*, can be observed, especially in railway and road transport networks, the absence of *harmonisation between national priorities and UE priorities* (despite recommendations, only five large states have developed a network of high-speed railway), *under-exploitation of certain potentials*, such as the Danube and the *waste of potential sources of funding*, in the form of public-private partnership (only a few major projects have been carried out in this form).[52] Despite these shortcomings, various studies confirm the positive long-term economic effect of investments in transport.

52 Ecorys, Strategic evaluation on Transport Investment Priorities under Structural Funds and Cohesion Fund, 2006, page V.

The environment

There are big differences between the Member States and their regions in terms of environmental protection, issues that threaten the environment, and local capacities which should respond to these problems. For example, it is estimated that the average life expectancy of the citizens of Europe is eight months shorter only due to air pollution, while this impact will increase over the coming years in the regions with high air pollution (Benelux, northern Italy and eastern Europe).

Analyses of national programmes show that "most of the investments in the environment (water supply, wastewater treatment and local waste) are based on obligations arising from the *acquis*[53]. Cohesion policy has significantly contributed to environmental protection as a basic prerequisite for sustainable development and better quality of life, as well as to the implementation of environmental legislation. During the 2000-2006 period, about 13 percent of funds were invested in water supply projects, water protection, waste treatment, sustainable energy sources, protection from noise and air pollution. **The best results have been achieved in water supply**. During this period, about 2,000 km of water pipes were reconstructed and 600 km of new pipes built in Spain, covering a population of about 2.6 million, which makes 6 percent of the Spanish population. In addition, 57 water treatment plants and 13 desalination plants were build to serve about 1.8 million people. Results were also achieved in waste management. In the Italian regions under Objective 1, European Union funds have solved the waste problems in a territory with a population of 6.4 million. In Spain, for example, according to estimates, the Cohesion Fund provided 15 percent of the financial resources necessary for community waste removal and 69 percent for solving erosion problems and for afforestation.

53 Strategic evaluation on Environment and Risk Prevention under Stuctural Funds and Cohesion Funds for the Period 2007–2013, 2006, page 1.

During this period, the cohesion policy has allowed for **increased investment in renewable energy sources**. The largest beneficiary of these types of projects (the use of wind power, biomass, solar energy, etc.) was Portugal.[54]

[54] According to the strategic evaluation of environment protection and risk prevention carried out by GHK Ltd, ECOLAS, IEEP (2006), a €100 billion investment is necessary to solve the issues of water supply, waste management, renewable energy sources and natural disasters management. The annual investment necessary ranges from 1 percent to 2 percent of GDP. These are particularly urgent needs in Bulgaria (4.5 percent GDP) and Romania (4.7 percent GDP), while they are much less so in Spain (0.1 percent GDP).

There is no doubt that EU regional policy measures have contributed to the preservation and improvement of the environment, reducing pollution and pressures on the environment, providing uninterrupted water supply and using natural resources so they will continue to be available for future generations. In addition, the contribution of cohesion policy can be seen in an increased awareness of the necessity for environmental protection and economic development based on the principles of environmental protection and sustainable development. Some programmes, such as those providing for uninterrupted water supply and drinking water, not only contributed to the health of the population, but are crucial to the development of certain industries such as agriculture and tourism, which require water management to be regulated in a sustainable way.

During the 2000-2006 programming period, almost € 14 billion of Structural Funds (including EAGGF guidelines), or approximately 7 percent of the total funds were spent on rural development measures. Support was provided in five areas: the maximum use of rural potentials, the management of water reserves, infrastructure development, the development of rural economy and environmental protection.

The effects of invested funds are particularly visible in connecting urban and rural areas by the construction of road infrastructure and introduction of the so-called rural taxi buses, common waste management – such as the project in the Ur region in the eastern Pyrenees in France, where 18 communes jointly established a system for the collection, processing, recycling, packaging, transportation and destruction of waste – development of information technology, development of rural tourism etc.

Regional Policy of the European Union has not only brought investment projects, but also a **strategic approach** to the development of transport infrastructure and environmental protection. In this regard, it was possible to harmonise environmental principles with the objectives and measures of other sectoral policies. Although compliance was achieved, *full integration was not*. Also, strict rules and standards of environmental protection have ensured that environmentally-friendly projects are designed in such a way as to operate in accordance with the existing legal framework on environmental protection, and to control the environmental impact during their implementation.

Inadequate planning of programmes/projects occurs as the main deficiency of cohesion policy measures in this area. Fears of the consequences of failing to meet obligations stemming from the *acquis* is the dominant basis of investment planning. In addition, in certain cases, *projects did not followed subsequent expansion of population and/ or economic activities*, but took an earlier lack of investments in certain locations as the main criterion of project selection. For that reason, problems such as eutrophication[55], increased air pollution etc. are still reported.

[55] Eutrophication is a process of increasing concentration of chemical nutrients in the water to an extent that increases primary productivity, i.e. production of aquatic plants. It can have a negative impact on the possibility of using water resources.

3.6 The success of cohesion policy in creating local partnerships

These funds have supported Community initiatives in different areas during the 2000-2006 period. All these initiatives have enabled the development of territorial cohesion policy by emphasising the alternatives based on regional characteristics and promoting regional cooperation and partnerships between regions of different member states.

INTERREG, the largest Community initiative, provided support to the regions with the aim of promoting economic and social cohesion within the European Union and has evolved significantly during the 15 years of its existence. The programme has included support for cross-border cooperation, trans-national cooperation and the exchange of experiences and improvement in defining policies.

During the 2000-2006 period, the INTERREG III programme budget amounted to €5.8 billion, 66 percent of which was spent by six states, Spain, Germany, Greece, Italy, France and Portugal. New member states, which joined in 2004, spent 8 percent of the total budget. Despite limited funds (€74 million per programme), programmes have had a remarkable effect on attracting additional funds (for every €100 invested, an additional €165 were attracted). These include investments which almost certainly would not have been made without the INTERREG programme. This type of regional cooperation has also enabled partnership, exchange of experiences and good practice. Funds were concentrated on four types of activities during this period: transport, regional cooperation, tourism and support for small and medium enterprises.

System links were built between the bodies of state administration through the Austrian-Slovenian programme. New institutions were created in many border regions (such as the Euro region in Steinmark and working group in Karnten), while on the other hand, existing agencies were reinforced and their funds increased (regional development agencies in Slovenia and regional offices in Austria).

Studies show that most of the activities funded under this programme would not have been achieved without funding through the INTERREG programme or would have been of significantly less in volume and duration. Thus, for example, the Swedish-Norwegian III A programme found that 71 percent of projects would not have been implemented without the INTERREG programme. Moreover, 60 percent of the participants in the Nord IIIA programme involving Norway, Finland, Sweden and Russia, also believe that their projects would not have been implemented without the INTERREG funding.

However, the greatest challenge in the implementation of the INTERREG programme is its international character, and therefore differences in the political, legal and administrative systems within which they were implemented.

It can be concluded that cross-border cooperation programmes and trans-national programmes have often been of help in overcoming institutional inertia, mobilising financial resources, encouraging economic activities and creating new forms of cooperation and partnership. Moreover, these programmes have contributed to the transfer of knowledge and experience in different areas. It is important to note that these programmes have had positive effects in those parts of Europe which are traditionally characterised by good cooperation, such as the Baltic Sea region or the regions of the Benelux countries. However, it should also be mentioned that territorial cooperation in some cases contributed to the creation of new regional concepts and encouraged the creation of new "regional identities", institutions and cross-border systems and that in some cases local authorities entered areas which were previously reserved for central government. Whether this development had positive or negative effects on economic development and the geopolitical stability remains an open question.

The **URBAN** Community Initiative was established with the aim of supporting urban areas in crisis. URBAN II programme included 70 cities. Cities which were included in the programme had different characteristics, like high unemployment rates, high rates of crime, etc. Support was particularly focused on planning and reconstruction, in the 2000-2006 period almost a third of funds were spent on these aspect, while about 10 percent of funds were spent on activities of social inclusion. Directing activities at smaller, more vulnerable areas inhibited an integrated approach in solving different problems. Moreover, programmes were focused on both financial and territorial aspects, which can be seen by the fact that assistance per capita was 30 percent higher than average than in the regions under Objective 2 .

EQUAL Community initiative allowed for an inclusive implementation of labour market policies and the development of good practice. This initiative has contributed to labour market reform and the transformation of the European Employment Strategy into national plans and the implementation of legislation in member states. With support from the European Social Fund and national funds, EQUAL has contributed to the implementation of four key principles:

- Partnership: solving complex problems, including all stakeholders;
- Trans-national cooperation: learning from the experiences of other member states;
- Innovation: developing and testing new approaches;
- Exchange of good practice and influence on policies and practice.

EU funds invested through the implementation of this initiative amounted to €3.27 billion, while the national contribution amounted to around €2.2 billion in total. There were 27 EQUAL programmes in total, one in each member state, except in Belgium and Great Britain, which had two programmes and about 3,000 projects. One of the basic principles of this programme is mutual cooperation, which can be seen in partnerships between various stakeholders in project implementation. This principle has contributed to a coordinated approach and the cooperation of a large number of partners, regionally and locally.

3.7 Improving management capacities

Another impact the EU regional policy can be seen in the fact that the use of Structural Funds has led to an improvement in the management capacities of the administration. A direct impact of Structural Funds is an improved ability to create and implement public policies, build long-term partnerships, intensify the evaluation of policy and program effects, as well as transparency in decision-making and exchanging of good practices. All these factors have resulted from the implementation of EU regional policy and led to this work method becoming a regular practice of the national administrations in other areas as well, which improved governance at all levels.

The European Commission is the author of reforms focused on developing methodology for financial allocations. The Commission's role in ensuring compliance with the rules initiated the modification of programmes and strategies and influenced the monitoring and control of spending. Research shows that the principles and methods of cohesion policy have influenced the creation and implementation of policies in almost all member states, and contributed in particular to broadening the scope of regional development priorities, new institutions and the development of partnerships with the civil sector.

Efficient and preferably effective creation and implementation of policies is especially visible in the member states where there is a high level of integration between the EU strategies and national strategies, which are designed on a strong analytical basis, with established partnership between the institutions, clearly defined competencies and responsibilities, broad consensus and the full support of political leadership.

In those countries where such an approach has not been achieved, cohesion policy implementation is a subject of political and institutional tensions and frequent conflicts. This scenario is especially visible in some EU member states with a tradition of national regional policy, which have failed to fully integrate the objectives and cohesion policy management system. However, parallel systems (European and national) characterised by their own administrative requirements have been created. The end result is reflected in incoherence and inefficiency in spending available funds in accordance with the national priorities and, ultimately, creates problems in relations between European and national administrations.

However, for various reasons such as irregularities, a lack of project documentation, insufficient capacities etc. the EU member states always fail to use part of the Structural Funds and Cohesion Fund. At the end of 2007, the return of the Structural Funds and Cohesion Fund amounted to €1.9 billion, about 1 percent of the total allocated funds. Differences in the return of funds varied among states, even up to 3 percent, as well as within the states (five programmes in three different states ranged between 13 percent and 26 percent). Nevertheless, it should be noted that the rule of returning the funds if they are not used within a certain period of time, adversely affects the quality of projects, as it encourages decision makers to focus on those projects which will almost certainly be implemented and avoid risky projects regardless of their importance and priority.

The equation could be the following: the more successful the financial management and control system, the lower the costs in terms of the number of mistakes that result in returned funding and the greater the bureaucracy caused by different rules. The system applied to the implementation of cohesion policy has both these negative characteristics.

The Report of the European Court of Auditors from 2008 points to errors in financial management occurring in 11 percent of the cases[56]. These errors occur mainly due to the violation of public procurement rules, financing of non-eligible costs, non application of tax exemption and lack of documentation which confirms the eligibility of costs. Fraud may also occur, but in rare cases. It seems that most of the errors arise from lack of knowledge, training or managerial capacity, but also from the complexity of the rules which apply. In its annual report the Court of Auditors states

[56] *A 2 percent error is considered acceptable.*

that the control system applied by the European Commission and member states is "partially efficient" (classified as yellow instead of red in the evaluation system). This resulted in the revision of 3 out of 16 systems classified as inefficient, which is a significant step forward compared to the previous year, when 13 out of 19 systems were inefficient. The debate on the issue of how to improve the system and reduce costs at the same time is still on-going. At this point it is not known which results it will bring and what will be the results of the new control system which was introduced for the 2007-2013 financial period. In any case, according to European Commission estimates, an attempt to reduce the percentage of mistakes within the existing rules would bring significant financial consequences in the function of such a control system.

Experience and evaluation reports indicate that the shortcomings of the institutional system often cause the inefficiency of the cohesion policy measures. However, there is no blueprint on how to create institutions without flaws: "Best-practice institutions are by definition in most cases the ones which are out of this context and which do not take the complications into account".[57]

[57] *Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, April 2009, page 176.*

3.8 What do citizens say about EU regional policy?

One of the main objectives of cohesion policy is the welfare for all citizens of Europe and the improvement of the quality of life. Official reports and expert analysis of the effects of cohesion policy are the subject of debate, but if one says that cohesion policy measures are implemented for the citizens and equality among them, it is necessary, in my opinion, to hear the opinion of the citizens on the effects of cohesion policy and its future.

Research conducted in early 2008[58] included 27,000 randomly selected citizens aged 15 and older, from 27 EU member states (around a 1000 from each state).[59]

Half (49 percent) of respondents were familiar with the fact that the European Union has financially supported their city or region. More than two-thirds of respondents said that the support of the Union was beneficial for their city or region (70 percent). Only 22 percent believed that the regional policy of the European Union has no positive effects.

Research has shown: the more EU support that reaches regions through Structural Funds and Cohesion Fund the more citizens are aware of and support the EU. For example,

[58] *Citizens' perceptions of EU Regional Policy, Analytical Report, 2008, page 5.*

[59] *About 38 percent of the respondents think that television is the most important source of information which helped them to learn more about EU Regional policy, while 26 percent think that television is in second place.*

in almost all countries where most of the regions fell under the criteria for EU funds, more than 60 percent of the respondents were aware that the European Union was implementing projects in their city or region. This was the case with Eastern European countries such as Slovenia, Lithuania, Poland, Estonia and Romania, but also Ireland, Malta and Spain.

In addition, the countries where the level of awareness of EU assistance was highest are also those countries whose citizens are most aware of the positive effects of regional policy. One exception is Slovenia, where awareness of the support is high, but citizens have a negative opinion of the effects of the EU regional policy.

Almost all respondents (85 percent) were unanimous that the regional policy of the European Union should be directed at the poorest regions. However, most respondents (58 percent) believe that regional policy should not be focused solely on these regions, but that all regions should be beneficiaries of the EU regional policy instruments.

Citizens pointed out that the education, health care, social issues and environmental protection should be at the top of the list of priorities of the EU regional policy, and then business, development and infrastructure.

Most respondents welcomed the principle of subsidiarity in defining strategies and projects: eight of 10 respondents pointed out that it is good that the regional policy of the European Union allows member states and regions freedom in defining strategies and projects. In addition, the same number of respondents supported the participation of bodies such as trade unions, organisations that deal with gender equality and environmental protection etc. in the identification of projects: 82 percent thought that this principle is positive, while 11 percent thought otherwise.

Respondents agreed that globalisation, climate and demographic changes should be included in the priorities of future EU regional policy (84 percent for and 11 percent against), 61 percent of respondents found that climate change should be a main priority of regional policy.

4. The perspectives and challenges of regional development after 2013

4.1 Introduction

Over the following years, certain challenges will have an impact on the development of European institutions, society and economy. Regions are becoming key actors in the global arena in solving economic, social and environmental problems, as all these difficulties mostly affect the local level. This part of the study points to the temporary challenges related to the adoption of the Lisbon Treaty and the solutions to effects of the world financial crisis, as well as the challenges in the medium term until 2020 and their effects on the development of regions.

However, it should be noted that a short review of the medium-term challenges cannot replace a detailed analysis of the characteristics of each country and region nor may take into account the capacity of each country and region to respond to the challenges. Part of a study referring to medium-term challenges is based on assumptions which seem reasonable now, but may not be adequate in the future.

Cohesion policy is a development policy whose aim is to mobilise the potentials (the future), and not compensate for the deficiencies (the past). Regional development is a complex phenomenon, which primarily depends on the labour market, business environment, availability and interdependence of production factors, with an appropriate combination of instruments of economic policy. In this regard, one should think about the future and present the outlines of cohesion policy in the new financial cycle 2014-2020, which is especially important for us, because at that time we will access the EU and feel the advantages and challenges of EU regional policy.

■ Temporary challenges

The Lisbon Treaty

Cohesion policy was established by Article 158 of the Treaty of the European Union, which states that the Community seeks to promote harmonious development and that it will develop and implement activities which will strengthen economic and social cohesion in accordance with this aim.

Bearing in mind the guidelines of the Lisbon Treaty, which is in the process of ratification in the parliaments of the EU Member States, cohesion policy will continue to have great importance. The Lisbon Treaty, in Article 3, also states that the Union will work towards the sustainable development of Europe, based on balanced economic growth, and that it will promote economic, social and territorial cohesion and solidarity among the member states. The Lisbon Treaty also highlights that it is very important that all EU member states and all regions benefit from rapid development, and that living conditions on the whole territory of the Union strive to become equal. To achieve these objectives, the European Union will continue to implement the cohesion policy, which will primarily rely on the already tested instruments of Structural Funds and the Cohesion Fund.

However, after the negative outcome of the first Irish referendum on the Lisbon Treaty, in June 2008, the European Union was put in front of a new challenge. The first reaction of the European Commission officials after the Irish "no" was that member states should continue with the process of ratification. Concerned about the possibility that 1 percent of EU citizens, as is the population of Ireland, could block the will of 99 percent of EU citizens again raised voices about "Europe in two speeds", which would include the core, ready for more comprehensive integration, and other countries, which would gradually be included in these processes, depending on their individual rhythm and specific interest in one or another issue.

Today, 15 months after the Irish "no", on the repeated referendum organised after the European Union made concessions to Ireland, primarily related to the issue of military neutrality, abortion, tax rates and number of Commissioners in the European Commission, the Irish said "yes" to the Lisbon Treaty, which started a new episode in the development of the European Union.

The complexity and the need for new methods of decision-making can also be seen in the example of cohesion policy and the debate that will undoubtedly take place on the new 2014-2020 programming cycle. It is normal that countries have different interests when it comes to the allocation of funds. Countries like the Netherlands or Germany will want to keep the Structural Funds limited. On the other hand, the new member states will argue that it is necessary to provide support to underdeveloped regions and that the threshold of 75 percent of average EU GDP, as a measure of (under)development, should be increased. Finally, countries which will access the European Union will want their "piece of cake". They will probably argue that the limit of 4 percent of GDP for the allocation of funds should not be applied. To find a solution, some kind of compromise among these different positions will have to be found, and that is not easy. It is clear now that if a new method of decision-making had not been introduced, any future reform project could have been blocked by the decision of some minority. However, when it comes to foreign policy and defence policy, as well as the issues related to taxes and the EU budget, unanimity in decision-making will still be required.

One of the main advantages of this agreement will be more effective EU foreign policy, which will be led by the Minister of Foreign Affairs, combining the functions of the High Representative for Foreign Affairs and Security Policy and the function of the Commissioner for External Relations. Presidents and prime ministers of EU states will, in the future, elect the President of the European Council for a period of two and a half years, instead of the current presidency, which was rotated every six months between member states. A novelty is also that the countries which have introduced the Euro, and belong to the so-called Eurogroup, will elect a Chairman for a period of two and a half years. It is envisaged that the European Commission will have a smaller number of members from 2014 onwards. Under current rules, each of the 27 member states appoints a Commissioner, and this will be reduced to two thirds of the countries. The number of seats in the European Parliament will be increased from 736 to 751, but the voting system will be changed so that decisions will now be adopted by the votes of 55 percent of member states representing 65 percent of the EU population. However, the option will remain, between 2014 and 2017, for each state to request the return of the old voting system. The European Union, by the adoption of the Lisbon Treaty, acquired the status of a legal entity. In addition, the exit clause was introduced, which allows EU members to opt out of the Union. National parliaments will also have their say on laws enacted by the European Parliament, if one third of the Member States Parliaments rejects them the European Commission will have to amend the laws.

On the other hand, it is important that the Irish expressed concerns, common to all Europeans under the pressure of two major changes (almost a doubling in size of the EU and economic globalisation), that a solution to their problems, such as increasing prices, climate change, food safety, etc. was not in the institutional problems they are being consulted about. In this regard, the citizens "no" from June 2008, even from a small country, served as an indicator of how serious the problems that we are facing today are.

We should of course expect and strive for the best, the adoption of the key document of the European Union, which would reform this massive family, allowing the institutions to be more efficient in the coming period, especially in solving the everyday problems of the citizens. The acceptance of the Lisbon Treaty is a great encouragement for the process of EU enlargement. Now the door of the European Union is open both for Serbia and for the Western Balkans.

World economic crisis

The world economy is in a difficult situation. The mortgage crisis and high foreign trade deficit have decreased the value of U.S. dollar, which has in the long-term perspective led to an economic crisis which has seriously distorting the entire financial system of the United States. To make things worse, the US market is one of the largest in the world, with the economies of many countries relying on it directly, and the US crisis, like a domino effect, was transferred to the market of the European Union and other regions of the world, causing a recession and the collapse of the banking systems.

The economic situation in the EU Member States clearly shows that the European Union is no exception to the rest of the world. The financial crisis further supports the need for a new approach to economic development. Heightened insecurity and fear caused additional losses, failures and inefficiency. Moreover, distrust of the financial system makes it impossible to predict in which way the crisis will be overcome.

The Spring forecast for economic trends in the European Union for 2009 and 2010, issued by the European Commission, predicts that, as a result of the financial crisis, economic growth in the European Union in 2009 will be negative (-4 percent), before stabilisation is reached in 2010, as a result of economic policy measures in accordance with the European plan for economic recovery. It can be said that the basic factors behind the current recession are the intensification of the global financial crisis, a sudden drop in world trade, a subsequent decrease in industrial production and ongoing changes on the real estate market in some countries.

It should also be pointed out that the EU member states are affected by the economic and financial crisis to a different extent, which depends on the level of their integration into the global economy. The Baltic countries have been affected the most (expectations are that economic growth in Latvia will amount to -13.1 percent, and in Ireland -9 percent). States that are very dependent on export will be particularly affected (like Germany), then the economies open directly to the financial crisis (the UK), as well as countries in which the real estate markets collapsed (Ireland, Spain).

The negative impact of the crisis on the labour market of almost all EU member states is particularly strong, as well as the expectations that the unemployment rate in the European Union in 2010 will reach 11 percent (11.5 percent in the Eurozone), which will amount to a total of 8.5 million jobs lost. Inflation will continue to decline and in 2009 will amount to 1 percent in the European Union (0.5 percent in the Eurozone). The growth of budget deficit to 7.25 percent of the GDP in 2010 is also expected as a result of the recession and economic policy measures. The increase of budget deficit above the established limit of 3 percent of the GDP is expected in 21 of the 27 member states. The European Commission has already initiated procedures in cases of huge budget deficits in Greece, Spain, France and Ireland, a new deadline has been set for Great Britain, while the same measures have been announced for Poland, Malta, Romania, Latvia and Lithuania.

In order to mitigate the effects of the global financial crisis, the European Commission has proposed the adoption of a package of measures that will enable EU member states to use allocated Structural Funds in a more flexible manner than envisaged by the regulations. This primarily refers to the extension of the period in which already allocated funds from the 2000-2006 budget period had to be spent. In the 2000-2006 budget period a total €257 billion was allocated to the member states through the Structural Funds and Cohesion Fund. So far €225 billion have been disbursed, which makes 87.5 percent of the total allocated amount. The European Commission urges the member states to use the funds allocated from the Structural Funds and Cohesion Fund only for the measures which have a multiplicative effect on economic growth, such as investing in energy efficiency and support to new technologies which will affect the sector of construction and automotive industry[60].

[60] *CESS Magazin, Centar za strateška ekonomska istraživanja, „Vojvodina CESS".*

In the 2007-2013 budget period, a total of €347 billion was allocated for the implementation of cohesion policy. In 2007 and 2008, the European Commission paid €18.1 billion to the member states, in advance. According to cohesion policy regulations the implementation of an additional €5 billion were provided in 2009. In the economic crisis recovery plan, it is envisaged that additional €6.25 billion will be paid to the member states in 2009.

It is not known when we will be able to talk about the beginning of economic recovery with certainty. What is definite is that the social consequences of the crisis will last longer than the financial crisis itself. Therefore it is very important that only on the basis of cohesion policy measures, aimed at the most important issues, such as unemployment, can it be seen that EU regional policy is based on two principles: accountability and solidarity.

■ Key challenges for European regions in the period until 2020

The Global financial and economic turbulence of today causes the unpredictability of the future world economy. For this reason, it is even more important to determine how Community policies will adapt to the challenges regions face, and what response Community policies will provide to those challenges.

In this regard, the European Commission launched a public debate based on the Communication "Reforming the budget, changing Europe"[61], which was adopted on 12 September 2007. This document represents the European Commission's position on budget revision and predicts new challenges and the Union's response. On the other hand, the main problems that the European regions will face in the period up to 2020 have been identified, and they will undoubtedly need to find their place in the planning of future budget cycles. Among the challenges identified, four are of particular importance to European regions: globalisation, demographic changes, climate change and secure and sustainable energy sources.[62]

[61] *European Commission, Communication from the Commission, Reforming the Budget, Changing Europe a Public Consultation Paper in View of the 2008/2009 Budget Review, 2007.*

[62] *DG Regio, An Assessment of Future Challenges for EU Regions, 2008.*

Globalisation: the southern and south-eastern regions are particularly exposed

Globalisation will create more opportunities for producers and companies which are in a position to cope with large markets and competition. Consumers will benefit from higher living standards in the form of lower prices and a greater choice of products. A general increase in economic activities and trade will increase the demand for labour, as well as employment and economic development. However, globalisation may also contribute to structural changes. Greater competitiveness can put additional pressure on local businesses, indirectly on wages, especially for employees with a low educational profile. For this reason, many regions throughout Europe will have to restructure the economy and to invest in innovation and human resources, to fight the effects of globalisation.

Regions located in the north west periphery of the European Union are in a much more favourable position. These are the regions of Finland, Sweden, Denmark, Great Britain and Ireland. It is expected that they will profit from the labour force with higher education, high employment rates, a large share of employment in the sectors of high technology and high levels of labour productivity.

Most of the regions located in the southern and eastern parts of the Union, starting with Latvia, eastern Slovakia, Hungary, Bulgaria and Romania, to Greece, Italy, Spain and Portugal, will feel the negative consequences of globalisation. This vulnerability is primarily reflected in a relatively high share of activities with low added value in these regions and a poorly skilled workforce, which can cause problems in attracting investment, creating and maintaining jobs.

It is estimated that in most member states regions with large urban centres will more easily respond to the challenges of globalisation, primarily due to the highly educated workforce, dynamic industries and leading economic activities. On the other hand, the concentration of economic activities in agglomerations can also create negative external effects (such as traffic congestion, urban collapse, exhaustion of natural resources and ecosystems) and can lead to under-used economic potential in other regions.

Demographic changes: large differences across Europe

The ageing population comes as a result of economic growth, social policy and significant progress in medicine. It is estimated that the population of the 27 EU member states will be slightly reduced and older in the coming period, which is primarily the result of lower birth rate and increased living standard. It is expected that by 2050 there will be 48 million less people in the age group between 15 to 64 and 58 million people more over the age of 65. In the period up until 2020, population growth in the Union will be much lower in comparison to major competitors, primarily the United States, China and India. The European Union will record the highest ageing of the population after Japan. At the same time, Europe's neighbours in the Middle East and Africa, at a world level, will record the highest growth of population.

Three important processes, diminution in the economically active population, increased ageing population and decrease in the birth rate will bring negative consequences to many regions. Only a few countries, such as Ireland, Malta and Cyprus will be in a more favourable position in relation to demographic challenges.

A third of European regions will face a population decrease in the 2005-2020 period. Most of them are located in central Europe, eastern Germany, southern Italy and northern Spain. A population decrease of about 10 percent is expected in almost 20 regions of these areas. It is assumed that most of the elder population will be in eastern Germany, north-western Spain, Italy and some parts of Finland. In Central and Eastern Europe, population ageing is expected in the long term. The economically active population will be diminished in several regions of Finland, Sweden and Germany. A 10 percent reduction in the economically active population will be recorded in about 40 regions in the period up until 2020. A 25 percent fall of the economically active population is expected in regions of Bulgaria, eastern Germany and Poland as a result of low population growth and high rates of migration.

Such significant demographic changes at a regional level often result in low levels of economic growth, primarily due to reductions in the workforce. To avoid increasing social differences and poverty, regions with a population decline may face problems financing basic goods and services, such as health and pensions, housing and transport infrastructure.

On the other hand, city regions and some coastal areas will face population growth. City regions will see an influx of economically active population and face the problem of their integration into the labour market and society in general, as well as problem of adapting infrastructure in cases of large population growth. Social differences in city regions will be large due to the high costs of living. In general, the demographic changes will deepen economic and social inequalities among regions and in some cases put pressure on the environment.

Climate change: Southern Europe is endangered the most

Solving the problem of climate change is vital for future generations. In the long term, climate change will cause an increase in average temperatures, changes in the quantities of precipitations, rising sea levels and erosion. In the short and medium term, climate change will cause an increase in natural disasters (storms, showers, floods, high summer temperatures).

For this reason, the consequences of climate change on the European economy, society and environment are a priority. First of all, we will address the efforts to reduce climate change by focusing on the problem of increased greenhouse gas emissions, as well as measures to mitigate the effects of the existing climate change. The year 2007 was particularly important in the fight against climate change, when the European leaders committed to reducing gas emissions by 20 percent in the period up to 2020, or 30 percent if other developing countries would commit to something similar by international agreement. In addition, they committed to increasing their share of renewable energy sources by 20 percent and increasing energy efficiency by 20 percent.

Almost a third of the population of the Union, about 170 million people live in regions that are under the effects of climate change. Regions which suffer the most are regions of Spain, Italy, Greece, Bulgaria, Cyprus, Malta, Hungary, Romania and southern parts of France. This is a result of changes in rainfall and rising temperatures. The consequences of floods are especially visible in Hungary and Romania.

Somewhat milder effects are expected in northern and western Europe, except the coastal areas of the North and Baltic Sea, which are exposed to erosion due to rising sea levels and extreme weather disasters.

Climate change will particularly affect agriculture, forestry, fisheries, energy production, healthcare and tourism, and will require significant investment in order to prevent and eliminate the consequences of drought, fire, erosion, flooding and high temperatures.

Energy: centre-periphery scheme

Energy is necessary for the functioning of Europe. All EU countries face the challenges of climate change, increasing dependence on imports and higher energy prices. EU policy aims at sustainable, secure and competitive energy. It is expected that the European Union's dependence on imports of energy products will increase from 53 percent of the total energy consumption in 2005 to 67 percent in 2030. It is expected that imports of gas will increase from 58 percent to 84 percent by 2030, and imports of oil from 82 percent to 95 percent. The European Union is becoming increasingly exposed to the influences of energy product prices, instability on the world market, and the consequences of gradual geopolitical concentration of fossil fuels reserves.

Another dimension of the challenges in the energy sector will consist of progress towards an economy based on a lesser use of fossil fuels, reducing greenhouse gas emissions, greater energy efficiency and a more important role of renewable energy sources, and the development of technologies for lesser use of fossil fuels, such as carbon dioxide air capture. The high prices of energy products and increased prices of fossil fuels will have multiple effects on the regions and will depend on the following: the structure of regional economy and its energy efficiency, the structure of energy sources and potentials of non-fossil energy sources (renewable sources, nuclear energy), prevailing transport models and innovation potentials.

Peripheral regions, which are mostly located in the eastern and southern member states, are particularly sensitive, due to the internal and external security of supply, energy efficiency of the economy and sustainability of their environmental conditions. Approximately one third of the population of the European Union lives in such areas.

Centrally located regions, such as, for example, regions in Belgium and Germany, are somewhere in the middle in terms of energy efficiency, but with high levels of household consumption and relatively low environmental sustainability. A third of the EU population lives in these regions.

A third of the population lives in the least threatened areas. These regions are located in northern and western Europe and show a strong capacity to adapt due to their own energy sources (United Kingdom and the Netherlands) or due to the structure of energy sources which allows lower greenhouse gas emissions and less dependence on producers of fossil fuels energy (Finland, France and Sweden).

Conclusion

On the one hand, if we look at the challenges that stand before European regions in the period until 2020 (globalisation, demographic change, climate change and secure and sustainable energy sources), and on the other hand, the profile of Serbia and the position of our country, the future of Serbia matches perfectly with the European future. By 2020 Serbia will be a member of the European Union.

The economic crisis will leave its mark on poor countries, Serbia among them. In the 1997-2007 period, Serbia recorded a population decrease of 3.2 percent. Increasing prices of fossil fuels and depleting resources, which Serbia anyhow does not possess in abundance, will impose alternative energy sources and make them more economical. Global climate changes and their consequences (let us not forget recent floods and fires) will become ever more visible.

Serbia cannot affect global market changes significantly, but can position itself so as to benefit from these changes. Stability, new jobs, social inclusion and justice can change the demographic picture of Serbia. Due to climate change, we will probably need to change the structure of agriculture and take care of our waterways, drinking water and water for irrigation, as well as afforestation.[63] Serbia must begin to use new technologies as soon as possible, especially those already developed, which can be exploited here in an efficient manner.

[63] *Forests imply the absorption of carbon dioxide, an increase in oxygen emission, temperature decrease and the prevention of fertile soil loss through erosion.*

Until it becomes a member of the European Union, Serbia needs to monitor carefully how the European Union creates its future policies, and how the United States, Russia, Brazil, China, India and other countries prepare for the upcoming challenges, and to adopt best practices.

4.2 The future of EU regional policy

Consensus that the EU needs to modernize its budget, thereby taking into account new challenges, reducing red tape and removing the *juste retour*[64] logic that has so far inhibited changes, has already been achieved. Cohesion Policy is a part of this reform, but as we have seen, there are many conflicting attitudes in terms of its results, and therefore also in terms whether Cohesion policy should be reformed and to what extent. The risk of changes for the worse is great, as well as a danger that steps towards reform will not be taken. Cohesion policy is necessary for the European Union, but certain steps must be taken to adapt to the challenges and remove certain disadvantages.

[64] *The 'juste retour' attitude, namely each EU member state's priority for securing the possible best individual net financial position vis-à-vis the community budget over any other consideration concerning the community budget.*

Regarding the content of EU regional policy after 2013, the European Union has already initiated a broad debate in which 17 EU countries took part (over 80 percent of the population of the European Union), including regional and local authorities, representatives of interest organizations, civil society, academic community and others. If we were to summarize the views of different stakeholders on the future of EU regional policy after 2013, it can be said that strong, widespread support was given for the continuation of EU cohesion policy in the period after 2013. Likewise, consensus was reached that common cohesion policy will cover all regions of the European Union, but that the emphasis will still be on those regions lagging behind in development when compared to the Union average.

In principle, consensus was also reached regarding coordination between cohesion policy and other EU sectoral policies in the period after 2013, in order to respond to the above-mentioned future challenges in the most efficient way (globalisation, demographic change, climate change and energy dependence). A special recommendation of the Commission was that there is a need for the renewal and strengthening of links between cohesion policy and rural development policy.

The second segment of regional policy which the participants in the debate agreed on concerns the simplification of the cohesion policy implementation system and greater participation of local and regional authorities, especially in the implementation of measures related to employment at the local level. In addition, the question of adequate assessment of levels of regional development was also initiated, as it is the basis for the allocation of Structural Funds. It was proposed that, in addition to GDP per capita, other indicators of development and quality of life are also taken into account in determining the level of regional development. The question of improving NUTS methodology was also initiated, as practice shows that some European regions, although at the same NUTS level, have different characteristics (e.g. total population and, consequently, different population density). This situation leads to a distorted picture of the real level of development of a given NUTS region and, consequently, inadequate allocation of available financial resources from the Structural Funds. Participants in the debate on the future of cohesion policy stressed that territorial cross-border, trans-national and interregional cooperation is the best example of how common cohesion policy contributes to mutual development and recommended that in the next budget period greater financial resources within the Structural Funds should be allocated for the promotion of cross-border territorial cooperation.

The latest report, which was prepared by Fabrizio Barca in April 2009 at the request of Danuta Hubner, EU Commissioner for Regional Development, is the basis for future reform of cohesion policy and encourages future debate on the conceptual, political and operational aspects of the EU regional policy.

In his report, Barca stressed that "it is necessary to establish a higher level of compliance with the concept of territorial policy or policy based on (geographic) location, and that cohesion policy must focus on several main priorities of utmost importance for the EU and its citizens. This approach will create a consensus across Europe and bring the attention of decision makers and the general public, and at the same time enable the European Commission to focus its efforts and capacities better and play a more important role".

The reform of regional policy should be based on the following principles:

- A precise concept based on verifiable economic principles which will provide clearly defined goals subject to evaluation;
- Clear and strong political justification based on the existing situation in Europe, which also corresponds to the expectations of European citizens;
- A management system which can ensure adequate functioning, knowledge and the democratic participation of stakeholders.[65]

If we were to transform these principles into practical solutions, we would come to the conclusion that the future cohesion policy must meet the following requirements: the adoption of a clear strategic concept through the concentration on a few key priorities, clear definition of the objectives and results, strengthening beneficiaries' potentials, strengthening the capacities of the European Commission and encouragement of a broad debate and political compromise on cohesion policy.

The concentration on a few key priorities will require a larger allocation of funds[66] to a limited number of priorities.[67] In his report, Barca suggests that cohesion policy should focus its resources on the following priorities: innovation, climate change, migration, children, skills and ageing. This approach would undoubtedly contribute to establishing a critical mass which can improve effectiveness and visible changes in the areas under these priorities. At the same time, a timely definition of the basic priorities would contribute to a more focused public debate on the measures necessary for the implementation of priorities, both at the level of the European Union and the regional level and local self-government.

65 *Fabrizio Barca, An Agenda for a Reformed Cohesion Policy, April 2009, page XVIII.*

66 *Barca in his report envisages an allocation of 66 percent.*

67 *Barca in his report suggests a maximum three to four priorities.*

The principle of the concentration of resources remains unquestioned. What is however disputed, from the point of view of a citizen of Europe whose country still is not a member state, is the selection of priorities. If we analyse formulated objectives in more depth, we will see that the debate which is currently ongoing in the European Union does not include the perspective of the Western Balkan countries. Formulated priorities are also priorities of the Balkans, and yet macroeconomic stability, underdeveloped infrastructure, inadequate education, insufficient investment in environment protection, technological dependence, poverty and other characteristics of "our region" require that the specificities of this part of Europe are taken into consideration. From today's perspective, it seems that these objectives correspond to the rich member states and their challenges and that, in addition to the Western Balkan countries, they also exclude less developed member states of the European Union to a certain extent. These differences will require a balanced approach in defining priorities and allocation of funds. Otherwise, if priorities are formulated in a way to suit the more developed member states, the competitiveness of Europe may be achieved globally, but with no guarantee that the regional competitiveness of the European Union will also be achieved, i.e. balanced development of regions within each country individually. And we should not forget what the main purpose of the EU regional policy is.

Clearly defined objectives and results will demand from the European Commission and the member states to clearly define, in their strategic documents, the expected long-term objectives, and changes (purpose) which will be achieved by the end of the implementation period, and then to commit to achieving the formulated results. This approach will require the improvement of the reporting system, the formulation of quality indicators (which fully correspond to the SMART[68]) principle), and consultation and coordination between decision-makers at the highest government levels.

68 *SMART – Specific, Measurable, Available, Relevant, Time-bound..*

The increase of efficiency and effectiveness in using funds requires competent and effective beneficiaries of funds who will be catalysts of EU regional policy implementation. Precisely for this reason, continuous action towards improving expertise, professionalism and knowledge becomes one of the objectives.

A large part of responsibility for an efficient and effective absorption of Structural Funds and Cohesion Fund lies with the European Commission. The competence, responsibility and motivation of the General Directorates of the European Commission are a guarantee of cohesion policy reform.

The encouragement of a broad debate on cohesion policy gives incentives for a greater role of the European Parliament and European Council in the debate on the effects of cohesion policy, as well as the solutions of individual member states. The current situation, where only financial absorption and percentages of irregularities are being discussed, must be overcome and a qualitative reference should be added to this discussion.

In his report, Barca points out that the geographical basis for determining the level of (under) development of certain territorial units and the allocation of funds, both the Structural Funds and national funds, should continue to be NUTS II regions. "NUTS II region is the closest to a territorial unit for which it is necessary to collect clear, homogeneous and updated economic data to enable the allocation of funds. The underdevelopment of one NUTS II region may further serve as the average, in terms of a basis for the allocation of funds, for determining (under)development of a region or territory within the NUTS II region. However, it should be noted that the NUTS II region should not be taken as a relevant measure for the intervention of a member state (or region in some cases). Once the total amount of funds for the developed and underdeveloped regions within each member state is determined at the level of the European Union, the allocation of funds envisaged for certain regions should be determined on the basis of what is necessary to achieve the priorities, as well as on the basis of the institutional context. Within each member state, territorial allocation for the developed and underdeveloped regions, as well as the criteria for the allocation of funds for each NUTS II region, would be part of the agreement with the European Commission."

Regarding the allocation of funds based on the socio-economic characteristics of the countries instead of NUTS II regions, my opinion is that this issue demands a broad analysis, discussion and ultimately consensus, which is not possible to achieve in this study.

Reform of cohesion policy, as well as proposals which are presented in the above-mentioned report should be analysed from three aspects: political, scientific and practical.

Politically, the reform of cohesion policy should be seen in the light of the reform of the EU budget for the 2014-2020 period and related to the agreement concerning the financial perspective for the 2007-2013 period, which was reached in the end of 2006 during the UK presidency, when the United Kingdom insisted on radical changes, especially of the common agricultural policy. One of the issues related to Structural Funds which was debated refers to "net providers" of funds, such as the United Kingdom, by insisting on the "re-nationalisation" of Structural Funds in order to allow EU15 (i.e. the rich member states) to manage the funds according to their own rules, while the Structural Funds rules would apply to the rest of the member states. This idea was rejected, but it seems that the same discussion can be anticipated through the contours of future cohesion policy reform. To make things more serious, the report prepared by Fabricio Barca was made at the request of the Commissioner for regional policy. This does not mean that the European Commission will automatically accept the proposed solutions, but it will certainly take them into consideration.

Scientifically, it is clear from the previous analysis of the effects of cohesion policy, and different views in this regard, that cohesion policy reform will raise interest among the professional public and that it will, in the coming years, lead to scientific debate on the concept of cohesion policy reform. For starters, we should discuss the proposals, such as the approach that advocates the use of different rules depending on who contributes to the Structural Funds budget and to what extent, whether this is acceptable, and if not, why?

However, ultimately, the key discussion will be the one on practical proposals. Many solutions which are currently used, such as operational programmes, managing bodies, determining the level of (under)development etc., will remain part of the Structural Funds and Cohesion Fund. However, in the coming years extensive discussions will take place on reducing and focusing priorities, standards related to indicators, ways of improving management capacities within member states, etc.

In addition, one of the reasons for the inefficiency of cohesion policy is without a doubt the insufficient capacity of the institutions of the member states to implement programmes and projects according to the defined rules. For this reason, in my opinion a special place should be given to the priority related exclusively to improving the capacities of the member states' institutions responsible for Structural Funds and Cohesion Fund management.

Finally, it should be emphasised that these proposals, although presenting the outlines of the future EU regional development policy, are just a beginning of the debate on EU regional development policy after 2013, and will be intensified over the coming years. This debate is also important for Serbia for two reasons. Politically, Serbia will become an EU member state in the new financial cycle (2014-2020). In this respect, priorities and rules for using the funds, which are now being defined, will be applied to Serbia. Priorities and rules defined for Structural Funds in the new financial cycle will also influence IPA funds. In addition, the future allocation of IPA funds will be determined during these negotiations. For these reasons, we can conclude that it is important for Serbia, in partnership with other Western Balkan countries and less developed member states of the European Union, to get involved in this debate as soon as possible. Once again I'd like to point out that at this stage all our efforts should be directed at the establishment of structures for the use of IPA funds and the preparation of projects which will allow smooth absorption of IPA funds, and later Structural Funds and the Cohesion Fund.

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5. Conclusion

Between two extremely conflicting interpretations of reality and effects of EU regional policy, it is certain that the European Union (which identifies development opportunities in the global arena and uses a comprehensive and unique framework of cohesion policy to direct and manage balanced development of its regions), and the state (which has clearly defined development priorities, with the state administration which unmistakably manages projects financed from EU Structural Funds), provide positive effects of EU regional policy, regional competitiveness and adequate living standard and quality of life of all its citizens.

Development and employment through the competitive market economy in an EU member country is a goal we aim for. To achieve this, every project is important, as well as every individual and every organisation which creates new value and contributes to its achievement.

The fundamental starting point, and also the message of this study is that achieving growth, sustainable development, education, employment, technological progress, social inclusion and justice, infrastructure development and environmental protection, balanced regional development and public administration which is reformed into an efficient and effective service for the citizens can be achieved through EU regional policy only by simultaneous and consistent action in a range of strategic areas.

Regional Policy of the European Union

Researches conducted over the past decade confirm that underdeveloped regions have managed to catch up with developed regions to a certain extent. How much can we thank cohesion policy for that? After analysis of different views on the nature of EU regional policy and its achievements, it can be concluded that they are based on real facts. All the analysts agree with the official documents of the European Union in one thing: it is very difficult to calculate the actual impact of EU regional policy and isolate it from other sources of economic growth and convergence, or in the case of Central and Eastern European countries from the process of political and social changes (democratisation, institution building process, etc.). However, its impact should not be either overvalued or undervalued. If EU regional policy had no significance, would the EU member states be fighting so hard for these funds which provide them with real opportunities for the development of their regions? However, it should be emphasised that the EU regional policy was never supposed to be the only driving force of progress, but only a support and complement to the free market effects and economic policies of member states, as defined in Article 159 (former Article 130B) of the Single European Act. It can achieve satisfactory results and increase the positive impact of other policies only in combination with other European and national policies, sound national macroeconomic policy and the good response of each member state to economic opportunities offered to them in the European Union.

The existence of this policy at the level of common institutions, the supranational level, is justified by the fact that the differences at the level of development of the regions of the European Union must be corrected by joint efforts.

EU Regional Policy is important in overcoming the problems caused by the common market and the integration process in general (e.g. a higher standard requires more investments in areas such as the environment, communications, and the removal of borders can have a negative effect on cross-border regions which depend on border trade, etc.).

However, the reasons for the existence of regional policy go beyond the notion of solidarity. Economic links and competition require serious regional adjustments. Since some regions adapt more successfully, differences arise with respect to income, production and unemployment rates. Contrary to the widespread opinion from the beginning of the European Economic Community, it was shown that the inequalities among the regions will not be reduced spontaneously merely by the establishment of a single market. On the contrary, one would say that a long-term consequence of establishing a common market is a tendency to concentrate development in very competitive regions (usually in the centre) and the creation of a periphery permanently lagging behind, thus creating conditions conducive to migrations and political instability. The fact that large migrations have not yet started on the EU territory primarily due to cultural and linguistic differences, does not diminish the economic justification of the existence of regional policy. Namely, if the integration process brings some regions to a less favourable position compared to others, there is a danger that structures or political powers which could question the very existence of the European Union will appear. Nevertheless, although the composition of redistribution implies that some regions (or states) are almost exclusively beneficiaries, and others only providers of financial assistance, all member states, even the most underdeveloped, are interested in supporting the regions lagging behind, because they are poor, underdeveloped markets for products from more developed regions.

We can conclude that the regional policy of the European Union is relevant for the following reasons:

Developed countries have an interest in improving the economic situation in the less developed member states. The integration of the EU economies is getting stronger and stronger. The so-called spill over effect is becoming more powerful. The weak economic performance of one country will certainly adversely affect the common market of the Union. From this point of view, EU regional policy could be defined as a mechanism which allows one member state to actively stimulate the economic activity of the other. If regional inequalities were smaller, all the effects of integration would be fairly distributed among regions and member states. At the same time, poorer member states would be able to contribute more, through taxes, to the budget of the European Union by increasing their efficiency. Their better economic performance would also reduce the overall level of inflation and thus facilitate urban and population problems in the large cities of the Union, caused by migration. The end effects for all the citizens of the European Union are positive.

Another reason for the existence of regional policy is purely economic – a high price for the member states. Not all countries have the same number of underdeveloped regions. Some countries have very big problems (Greece, Portugal, the majority of newly acceded countries), and others relatively small (Denmark and the Netherlands). It would be difficult for these countries to finance their poor regions by themselves. The necessary funds can only be collected at the Community level from the wealthier regions of some member states (such as Germany and France) and assigned to the most underdeveloped regions of the European Union.

In addition, one more question should be answered: what does the European Union do to ensure that all regions and all citizens of Europe have the same chance to concretise all the possibilities offered by the European Union, but also to eliminate all the risks and threats that integration brings? The successes of the single market, the Eurozone, the mobility of people are just some of the challenges for many regions, which have had their drawbacks, created concerns and escalated during the period of the global financial crisis. The main purpose of creating cohesion policy is to prove to the citizens of Europe that the European Union has a clearly expressed will to provide the same standard of living for all its citizens. We should not forget that the mitigation of economic inequalities is a condition for political stability, and history is a witness of what "European instability" looks like.

The third reason is that a common regional policy promotes greater political cohesion and "the Community spirit". Therefore, poor countries do not have the feeling that they are abandoned. This is very important because, although the causes of underdevelopment are different, there is a clearly established "centre-periphery" gap between the rich and the poor regions. A large part of the most underdeveloped regions are generally grouped on the periphery. That means that these countries would probably be reluctant to continuing with further integration, if they knew that they will have to bear the costs themselves. The number of states with a large differences in the level of regional development increased with enlargement.

There is also an attitude according to which the main purpose of the cohesion policy is redistribution of funds between member states and regions. This attitude is not based on arguments. Redistribution of funds is not sufficient for achieving efficiency and equality, the objectives established in the founding treaties, which call for a reduction of inequalities in territorial development. There is no doubt that certain regions receive more funds than they put in the common pocket, but the main purpose of cohesion policy is not the redistribution of resources, but the development of competitiveness, human resources, infrastructure, institutional changes, better services, partnerships development etc.

The Memorandum of Understanding on cooperation in the field of regional policy, which the Union has with China, Russia, Brazil and Ukraine, also speaks of the importance of EU regional policy. In addition, the European Parliament has decided to implement a pilot project "Strengthening regional and local cooperation through the promotion of regional policy of the European Union at the global level." The aim of this initiative is to study the experiences of regional policy of the European Union, its contribution to economic development and the role of European regions in the expansion of partnerships with regions outside Europe.

Although there is no consensus on the effects of cohesion policy, estimates prevail that EU regional policy has a positive effect on the economic development of beneficiary states and regions. Likewise, many authors rightfully argue that it is necessary to implement further reform of cohesion policy. Further focus on the needs of the regions, simplifying procedures, improving coordination among EU regional policy, national regional policy and other policies at the level of the European Union, are just some of the requirements on which the discussion has started.

In the discussion on cohesion policy reform it should be taken into account that any financial support is successful if it is implemented in a well-regulated institutional environment, that the main purpose of projects is to make policy, not politicians, and that funds require clearly defined priorities, not only spending.

The perspective of the Republic of Serbia

The Republic of Serbia is facing a great challenge. On the one hand, the effects of the global economic crisis are very noticeable primarily through the increase of prices, increase of the Euro exchange rate, loss of jobs, reduction of planned direct investment and the impossibility of rapid growth which the country enjoyed in the last five years, at a rate of six to eight percent. On the other hand, Serbia is on the path of European integration and its demands. Under the influence of the crisis, the internal conditions become more demanding and complicated. Therefore, the adoption of laws and strengthening the institutions which are necessary for the success of reforms and approaching the European Union, assume allocation of funds, of which we have less due to the crisis, while there are more problems and challenges to the political stability needed for reforms. On the other hand, the crisis affects the very European Union and member states individually. The time that these countries devote to solving economic problems means that there is less time for the process of EU enlargement. In addition, there is the question of EU institutional structure and the future of the Lisbon Treaty.

Serbia must endure before these challenges, implement defined measures for eliminating the consequences of the economic crisis and ensure the unity of all participants which influence the creation of the economic setting, starting from the government, executive and legislative authorities, to employers, scientific and educational institutions, unions and NGOs. On the other hand, such a consensus and the implementation of priorities and measures identified in the National Programme for European integration are necessary for the adoption of European standards and faster integration into the European family. It goes without saying that in both these processes strengthening partnerships with countries in the region should not be forgotten.

European integration as a basic strategic-political orientation and as a strategic framework for overall democratic and economic development of the country, implies continuing the European integration process and fulfilling numerous, complex and interrelated conditions. To achieve this goal, it is necessary to develop stable institutions guaranteeing democracy, the rule of law and respect and protection of human and minority rights, develop a market economy which can face the pressure of competition within the European Union, and implement harmonisation of national legislation with the *acquis* and, therefore, assume the obligations arising from membership.

During this process, particular attention should be directed to meeting the socio-economic needs and interests of citizens. All efforts should be concentrated on creating new jobs and reducing unemployment rates, investments in the education of citizens, as people are the power and the future, the improvement of transport infrastructure by strengthening the existing network, the level of security and services, the construction of additional lanes/railway tracks and bypasses, the relocation of transit flows from the urban city areas, the modernisation of equipment, reconstruction of intersections and removal/rehabilitation of road sections of high risk, the safeguarding and promotion of environmental protection and rational use of natural resources, scientific and technological development, the reduction of gender and social inequalities of marginalized groups, the encouragement of the employment of young people and persons with disabilities and other groups at risk.

Realization of these priorities and principles will enable the development of a competitive market economy and balanced economic growth, encourage innovation, create better links between science, technology and entrepreneurship, and increase the capacity for research and development, including new information and communication technologies, thus providing conditions for attracting new investments.

Encouraging the development of the underdeveloped, devastated industrial and rural areas and reducing negative demographic trends is of the utmost importance for overall sustainable socio-economic development of the Republic of Serbia. Besides, to develop Serbia we must not forget the world trends (agglomeration[69]) and the fact that strong urban centres are engines of countries' development. It is extremely important that in the coming period the field of regional development of the Republic of Serbia is regulated in a systematic way. We should proceed from the fact that EU regional development policy and national regional policies are of different nature, but that they also need to supplement each other mutually. Otherwise, we will create two parallel systems.

Defining a clear national regional policy is a priority due to the deepening of socio-economic differences and developmental opportunities of different parts of Serbia. It is also a priority due to Serbian efforts to fully integrate its economy and market in the global context and ensure the conditions whereby all parts of the country are capable and competitive in this environment. Another important factor affecting the growing importance of regional policy is accession to the European Union and the use of Structural Funds of the European Union, with the aim of reducing internal regional differences and creating conditions that would enable Serbia to catch up as quickly as possible with the average level of socio-economic development in the European Union.

Serbia also faces the task of introducing statistical NUTS division of its territory. Creating an efficient system that suits the needs of Serbia provides great financial benefits for all, especially for the poorest parts of Serbia. Although this is only a statistical division, with no political and/or administrative elements of the state organization, the creation of such units will inevitably lead to recognizing common interests within a single statistical region, which could ultimately lead to demands for political and administrative change in the existing state order (creation of administrative regions). Such a decision would, however, be an internal matter of national regional policy and an independent decision of Serbia and not in any way a requirement of the European integration process.

European integration, European standards, *acquis communautaire* of the European Union, cohesion, competitiveness, balanced regional development, etc. - these are all terms which are parts of this study, and increasingly of our daily lives. And who will pay and organize all that?

EU funds (IPA and Communities programmes in which Serbian participates), are at this moment only several large drops in the sea that cannot meet all our legitimate needs. We should not have high expectations from those funds in terms of allocated funds in the period of EU association. At this point, what is expected from IPA funds is that they contribute to structural reforms, the implementation of key investment projects of national interest, promote cooperation among Western Balkans countries and, most importantly, from the aspect of EU funds management and future allocations, prepare Serbia for the use of Structural Funds and the Cohesion Fund, which are five to ten times bigger than the funds in the association stage.

It is obvious that Structural Funds and the Cohesion Fund have not only provided additional investments in the beneficiary countries, but that the requirements defined in the EU Regulations have also supported the creation of a culture of planning and evaluation, and the development of administrative capacities. As each country has its own characteristics, the direct application of certain solutions from other countries will not be successful. It is necessary to define clear objectives and priorities, prepare projects and project documentation, organize the system of planning, implementation, evaluation and control, and train the administration and the potential applicants in order to maximize the effects of pre-accession assistance, and the future Structural Funds and the Cohesion Fund. In fact, it is necessary to draw conclusions from the experiences of other countries, learn from their mistakes and positive achievements. Only in this way, we can expect that more resources will be allocated for the implementation of the association policy in the new EU financial framework, which will help us to protect the jobs of citizens of Serbia and to open new ones, to improve local infrastructure and implement the necessary reforms.

Challenges of implementing IPA funds, as well as Structural Funds and the Cohesion Fund, can be described by three characteristics: disburse funds quickly and fully, spend them effectively (with a minimum return rate) and spend them wisely. The best institutional framework is the one which will enable Serbia to achieve these three objectives. The experiences of member states show that the institutions established at the central level, with efficient inter-ministerial coordination, are the basis for achieving these three objectives. Any regionalisation of IPA funds management as well as Structural Funds and the Cohesion Fund management, does not guarantee the absorption of funds. The aim that the Government has set, that the European Commission is to accredit a decentralised implementation system of IPA funds in 2011, seems realistic and achievable. Any delay to this date threatens the future allocation and absorption of Structural Funds and the Cohesion Fund.

[69] *Agglomeration or the wider city area is an extended city area, consisting of a centre and a certain number of suburbs, which together constitute an uninterrupted urban area. There are differences in how agglomeration is defined in various national statistical, administrative or geographic methodologies, hence there is a problem of comparison. Sometimes two settlements are part of the agglomeration, sometimes they are treated as separate settlements, and sometimes one is considered a satellite of another. The Largest agglomerations are (in millions of inhabitants): Tokyo (33.4), Seoul (23.1), Mexico City (22), New York (21.8), Mumbai (21.1), New Delhi (10.8), Sao Paulo (20.3), Shanghai (18.6), Los Angeles (17.9), Jakarta (16.9).*

The European Commission insisted that the 10 new member states should urgently improve their Structural Funds and Cohesion Fund management systems. In the Communication adopted on 16 July 2003, the Commission identified 10 areas in which countries which join the EU must rapidly make changes to ensure better absorption of EU funds:

- Public procurement;
- Organizational structure and inter-ministerial coordination;
- Financial management and control;
- Accounting;
- An adequate number of professional and trained personnel;
- Negotiations on programmes;
- Preparation of projects;
- Partnership, in terms of including relevant economic and social actors in programme design;
- Monitoring system;
- National co-financing sources.

From these recommendations the Republic of Serbia should take the message that the EU is not and will never be a large, constant financial source and Serbia's sponsor. The most important thing, which we need to understand well, is that Europe is a framework of rights and rules. This is also our framework, a Serbian framework, which does not impose restrictions, but on the contrary, allows us to participate in a common project. Our future EU membership should not be observed as a panacea that will in the twinkle of an eye correct all the errors accumulated over decades. It seems that people gradually realize that we will achieve the development level of the older member states only by relying on our own strengths, with the support of the European Union. This is something that the citizens of Serbia should know.

What we can offer to Europe is already now a central position in the region and the most trafficked river and road corridor in South-eastern Europe, internal market potentials and free trade with countries in the region and Russia, and an improved legal framework which encourages foreign investment.

However, it is very important that the development potentials of the Republic of Serbia are being developed in a balanced way. Strong Novi Sad and even stronger Belgrade are vitally important for the balanced regional development of Serbia. However, it is necessary to deploy and develop new industrial facilities and centres, and create Serbian development engines from Vranje, Nis, Novi Pazar, Uzice, Kragujevac, Subotica, Pristina and other centres.

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