

# THE ROLE OF THE REGIONAL DEVELOPMENT POLICY IN PROVIDING THE ECONOMIC AND SOCIAL COHESION

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**Abstract:** The economic and social cohesion policy aims at the reduction of the inequalities between the EU regions and at supporting these regions in order to use their economic and human potential better and to obtain a sustainable development. The enlargement of the European Union to 27 members represents an unrecorded challenge for the internal competitiveness and cohesion of the European Union. In the period 2007-2013 one shall focus in EU on the reduction of the disparities between the Member States and the regions by concentrating the resources on the less developed regions where the most part of the resources will be concentrated on the less developed regions and countries without neglecting the regions with a high development potential.

Although the European Union is one of the most prosperous economic areas in the world, there are significant disparities between the Member States and the 268 regions in what the gross domestic product per capita is concerned, the population and the infrastructure so that the inhabitants of the European regions cannot benefit from the same advantages and chances in the confrontation with the challenges of the globalization.

Although most of the economic growth problems are solved by the Member States and the regional and local authorities, the European regional development policy has an important role.

The EU regional development policy has the following characteristics:

- help at adjusting the disparities between the regions;
- is the expression of the European solidarity which presupposes that a part from the contributions of the Member States to the community budget should be transferred to the underprivileged regions and social categories;
- has as its purpose helping those regions and citizens from the European Union which are underprivileged, economically and socially in comparison with the European average;
- helps the countries and the regions from EU to face the new problems they are confronting: globalization, climate changes, the ageing of the population, migration, the growth of the prices for energy and the need of durable energy sources etc.

A fundamental EU objective which is stipulated in its Treaty aims at the reduction of the development disparities between its regions which should contribute to strengthening the economic, social and territorial cohesion.

The regional EU policy should also take into consideration the diversity, the opportunities and the challenges offered by the regions from Europe. These aspects are mainly imposed if we take into consideration that after the accessions from 2004 and 2007, the disparities between the European regions have significantly increased: 43%

from the EU income and 75% from the research and innovation investments are concentrated on only 14% from the European territory,

The richest Member State from the EU, Luxemburg is seven times richer than the poorest one Romania. At a regional level, the difference is even higher of 12 times more between the richest region from EU, the residential area from London with 303% from the average of the gross domestic product (GDP) per capita and the poorest region, the north-eastern region from Romania with 24% from the EU average. Such disparities can be still observed just in the case of the developing economies, as for example China and India where in the region with the highest GDP per capita is seven times higher than the less developed region while in USA this difference is just two times and a half higher and in Japan just two times.

The last enlargement wave of the European Union has suddenly aggravated the regional disparities both between the countries and also between the regions which determined the significant decrease of the GDP average in the European Union. In this situation, the countries and regions which were under the EU average before 2004, have managed to be above the EU-27 average are very closet o it and the consequences were in the limitation of the access of these countries or regions to the financing from the Structural and Cohesion Funds.

The analysis of the impact of the Eastern enlargement of the European Union points out the great economic disparities which separate the old EU members from the new acceding members from the central and the Eastern Europe. Until the enlargement from 2004 the community balance was kept and the creation of the community went further because in most of the cases the newcomers were as developed as the existing members and the differences were less important. Just in one case –when Spain, Portugal and Greece acceded- there were some absorption problems because of the big differences. The central and east-European wave of enlargement caused some problems because of the economic disparities which are more important and separate these countries from the developed ones from the European Union. Because the disparities were higher than those which separated Spain, Portugal, and Greece at that time from the industrial countries members of the European Union, the terms in which a balance is to be expected, is much higher. Although through their economic power one hopes that the 15 older members of the European Union will absorb the problems of the expansion and will attract new partners for the development from the Central and Eastern part of Europe, the process will be carried out slowly and the recovery of the disparities between these two will need a much longer period. Within the 12 members, taking into account the different development levels in the moment of accession there will be important levels of development in the moment of accession and also important disparities in recovering the differences towards the older members. According to some studies, Romania and Bulgaria will need a longer period of time to reach a medium income per capita which should be comparable to the one from the European Union.

From the analysis of the data from Table no.1 one notices a growth of the number and percentage of the regions with a lower than 75% GDP per capita as compared to the European average after the accessions from 2004 and 2007. So, 51 regions from the 55 newcomers were in the same situation in 1995 which determines that almost a quarter from the inhabitants of the European Union should not enjoy the same development chances as the ones from the developed regions. This fact has led to many consequences especially of the migration of the labour force.

Table 1

**Regions with GDP <75% below the EU average, 1995 and 2004**

		UE - 15		New member states (12)		EU - 27	
		1995	2004	1995	2004	1995	2004
Number of regions		213		55		268	
Total population (million)		372	386	106	104	479	490
GDP/per capita. <75% under the EU average	Number of regions	27	21	51	48	78	69
	Percentage	13	10	93	89	29	26
Population in regions with GDP/capita <75%	Number(mill ions)	32	32	103	91	136	123
	Percentage	9	8	97	88	28	25

*Source: Eurostat*

In 1995, 78 from the 268 NUTS 2 regions which currently are part of the EU-27 had a GDP per capita of 75% from the EU -27. From then 51 regions from the new member states, 39 had a GDP per capita of fewer than 50% from the EU average. In 1995 only four regions from the new member states had the level of the GDP per capita close to 75% from the EU average: Prague, Bratislava, Cyprus and Malta.

The situation has improved in 2004 as compared to 1995: 70 still had a GDP/capita of 75% from the European average, from which 49 were in the new Member States and only 21 in the rest of the Union. The three regions from the new member state in which the GDP per capita was raised at over 75% from the EU average were Slovenia, Poland and Hungary taking into account that these countries registers growth rates which were much higher than the EU average. For Bulgaria and Romania, one estimates that they shall reach a GDP per capita representing 75% from the EU 27 in 15 years time, because they had very low GDPs per capita.

The UE regions did not have a linear development: some regions, even from the former Member Countries had a low GDP per capita and due to this fact they were in the category of the countries with a GDP per capita smaller than 75% from the EU average (the three Italian regions: Campania, Puglia and Sicily) while other nine regions were above this level – two regions from Greece, four from Spain and one from the United Kingdom, Germany and Ireland.

Because the population from the three Italian regions is almost equal in number with the population from the nine regions in which the GDP per capita has grown, the size of the total population which lives in EU-15 regions with a GDP per capita under the 75% level as compared to the EU – 15 average is still unchanged.

In the Member States the economic activity is concentrated in the regions in which there are capitals, the exception being Berlin and Dublin. Between 1995 and 2004 the rate of the capital regions has grown in average with 9% from the national GDP while the population of these regions grew with 2%. This tendency was quite strong between 1995 and 2000 especially in Warsaw and Bucharest. The concentration of the growth in the regions of the European capitals could affect negatively the economic growth on a

long term because there are a series of externalities – the growth of the costs for maintenance, the lack of space for the commercial activities, pollution – which affect negatively the image and the competitiveness of these regions.

A more complete image of the disparities which sets apart the regions from the countries which have acceded after 2004 from the older Member States, takes into account the hierarchy of the regions according to the GDP per capita (Table no.2).

According to the data from Table no.2 from the 15 less developed regions of the European Union six are from Romania: South –West Oltenia(the fifth place with 28% from the European average), South-Muntenia(sixth place with 29%), South- East (eight place with 31%), North-West (tenth place with 34%) and the Centre (thirteenth place with 36%). According to Eurostat the North-Eastern region was situated on the last place in 2005, with 24% from the GDP per capita average of the European Union, calculated according to the parity of the purchase power. The single Romanian region which is not in the classification of the poorest regions from Europe is the Bucharest-Ilfov region with 74% from the GDP per capita average.

**Table 2**

**Regional GDP per capita in EU in 2005 (EU27 = 100)**

No. crt.	First 15 regions	Last 15 regions
1	Inner London (UK) 303	North-East (RO) 24
2	Luxembourg (LU) 264	Severozapaden (BG) 27
3	Bruxelles (BE)241	Yuzhen tsentralen (BG) 27
4	Hamburg (DE) 202	Severen tsentralen (BG) 28
5	Wien (AT) 178	South -West Oltenia (RO) 28
6	Île de France (FR) 173	South-Muntenia (RO) 29
7	Stockholm (SE) 172	Severoiztochen (BG) 31
8	Berkshire, Buckinghamshire & Oxfordshire (UK) 168	South - East (RO) 31
9	Oberbayern (DE) 166	Yugoiztochen (BG) 33
10	Groningen (NL) 164	Nord-West (RO) 34
11	Hovedstaden (DK) 161	Lubelskie (PL) 35
12	Praha (CZ) 160	Podkarpackie (PL) 35
13	Utrecht (NL) 158	Center (RO) 36
14	Southern & Eastern* (IE) 158	Podlaskie (PL) 38
15	Darmstadt (DE) 158	Swietokrzyskie (PL) 38

*Source: Eurostat*

In the top of the less developed regions, among the sis regions from Romania there are also five regions from Bulgaria (places 2, 3, 4, 7, 9) and four from Poland (places 11, 12, 14 and 15).

In the top of the most developed regions, on the first place there is the region Inner London from Great Britain with 303% from the EU average, followed by Luxemburg (264%) and Brussels (241%). In 2005 there was just one region in the top of the EU 27 regions, from the 55 which acceded to the EU after 2004 –the 12th place, Prague (CZ) 160.

In the charter of the 69 regions which are under the 75% level from the European average, 15 are from Poland, eight from Romania, seven from the Czech Republic, six

from Bulgaria, Greece and Hungary, five from Italy, four from Portugal, three from France and Slovakia and one region from Germany, Spain, Slovenia, Estonia, Latvia and Lithuania.

Most of the European efforts which were made to reduce the regional disparities from the EU are accomplished with the help of the cohesion policy which presupposes conditional subsidies, the conditions being attached to the transfers at the level of the objectives and of the system of accomplishing it. The Member States are required to elaborate a medium term strategy of using the resources in order to co-finance the European aid through their national resources, and to work as partners at a regional, local and national level, and to respect the EU laws and policies.

For the period 2000-2006 the transfers represented one third from the budget of the Community, respectively 213 milliards Euro being partly used to help the regions which were left back with the development and to recover the disadvantage towards the rest of the Community. The respective funds were used especially for supporting the economic and social conversions of some difficult regions, the modernization of the preparation systems and the promotion of the employment and to sustain the initiatives of the European Union regarding the cooperation between the regions, the sustainable development of the towns and the urban outskirts which are in crisis, of the rural development and the fight against discrimination.

In the Strategic report of the Commission regarding the Economic Reform at a European level, published in Brussels on 11 December 2007, it was demonstrated that the Lisbon Strategy functions and contributed to the improvement of the economic performances of the European Union:

- the economic growth was of 3% in EU-27 in 2006 and was estimated to stay on the level of 2,9% in 2007;
- in the last two years there were almost 6,5 million working places and it is estimated that up to 2009 there will still be 5 million working places;
- it is estimated that the unemployment rate will go under 7% the lowest level was registered in the half of the 80s;
- for the first time the significant growth of the employment rate was also accompanied by a substantial growth of the productivity.

For the period 2007-2013, the Cohesion Policy takes into account two main objectives of the EU which were agreed upon through the Lisbon Strategy – the economic growth and the occupation of the labour force.

The financial resources for the objectives of the cohesion policy represent 308, 041 milliards Euro (in prices from 2004), respectively 347,4 milliards Euro (in current prices) more than a third from the EU budget.

The investments from the cohesion policy have a significant impact on the competitiveness of the regions and on the living standards of the inhabitants, although they shall be focused of the poor regions in order to quickly recover the disparities which separate them from the developed countries from the EU.

In the centre of the cohesion policy and of its intervention instruments for 2007-2013 there is the accomplishment of a greater economic growth and of more working places for all the regions and town from the EU. It is estimated that the cohesion instruments will stimulate the economic growth in all new Member states with 6% in average and will create approx. 2 millions working places.

One has also to underline the fact that no matter the type of operation in which it is involved, the European Union aid is just additional to the funds given by the competent

national bodies. The respective states and regions evaluate precisely the need for funds, their usage is decentralized and the European Union has only to set the general frame for the usage of these funds, by applying some strict rules regarding the environment, the promotion of equal opportunities, etc. .

For the period 2007-2013, the Member States and the regions hat to prepare 423 operation programmes and almost 900 major programmes. The selection of the projects is made by the national and regional authorities, together with the European Union.

The strategic orientation regarding the cohesion policy has settled some common objectives which have to be attained by all programmes:

- the allocation of funds which should support the research, innovation and creation of an informational society, the sustainable development, the energetic efficiency and the development of the human resources. In the “convergence” regions, these priorities have to get 60% from the total of the available funds and 75% from the other regions. The rest of the subsidy provided from public resources (national or regional) or private resources. When the expenses cannot be checked or when the corresponding procedures of financial administration are not respected, EU can stop the subsidy or can recover the already paid amounts;

- the programs have to concentrate the investments in the regions with a high development potential, to invest in factors which could contribute to the economic growth and the employment, as well as to innovation and research, to set corresponding development strategies on a medium term, to contribute to the trans-European infrastructure and to the environment, to develop partnerships between the different levels of the government.

Each operational program has one or more priorities, with corresponding objectives, according to the development objectives which are specific for each Member State or each region, which are the basis for the selection criteria of the project.

For the period 2007-2013, The Regional European Development Fund, The Cohesion Fund and The Social European Fund shall contribute to three objectives:

- the *convergence* objective will receive resources from the ERDF, SEF and the Cohesion Fund. The regions are eligible for the “convergence” objective on the basis of a regional GDP lower than 75% from the EU average. For the convergence objective, in the period 2007-2013, there are 84 regions from the EU 27 – from 17 Member States-with a population of 154 million, where the GDP per capita is lower than 75% from the community average and other 16 regions with 16,4 million inhabitants with a GDP only a little bit higher above this rate, and that is due to the statistical effect of the EU enlargement. The available amount for the convergence objective is of 282, 8 milliards Euro, representing 81,5% from the total and is divided between the regions under the convergence objective which amount to 199,3 milliards Euro, while the 13,9 milliards Euro are reserved for the regions which benefit from a progressive suspension system of the aid and 69,6 milliards for the Cohesion Fund, the latter being valid for 15 Member States. One also has to mention that 8 from the 12 states which acceded after 2004, are eligible with their whole territory for the convergence objective: Bulgaria, Estonia, Latvia, Lithuania, Malta, Poland, Romania, and Slovenia.

- the objective *regional competitiveness and employment* will receive subsidies from ERDF and SEF. For the objective regional competitiveness and employment, there are 168 eligible regions from 189 Member States, representing 314 million inhabitants. From these, the 13 regions in which there are 19 million people, are the so-called

progressive regions and are subject to some special financial subsidies due to their previous statute of regions from the first objective. The amount of 54,9 milliards Euro – from which 11,4 milliards Euro are destined for the progressive regions – stands for almost 16% from the total subsidy.

- the objective European territorial cooperation shall be financed by ERDF. The geographic eligibility of the regions for the objective” European territorial cooperation” refers to the trans-border regions, which are part of the trans-national cooperation regions. The population which lives in trans-border regions amounts to 181,7 million( 37,5% from the total EU population) while all the other regions and citizens are in at least one of the 13 existing regions of trans-national cooperation. The 8,7 milliards Euro (255 from the total) which are available for this project are divided as it follows: 6, 44 milliards Euro for cooperation and trans-border networks, 1,83 milliards Euro for cooperation and trans-national networks and 445 millions Euro for cooperation and inter-regional networks.

The calculation method of the subsidies for the three objectives can be found in the EU rules. It distinguishes between the three objectives, the final rates depending on the national and regional relative prosperity, the number of the inhabitants and the unemployment rates. The funds do not exceed 45 from the gross domestic product of a Member State.

Romania has entered the transition process having relatively low level of the regional disparities, as compared to the other Member States or candidate countries. But these disparities have grown fast and are to be noticed between the Bucharest-Ilfov region (which includes the capital) and the other regions. The inter-regional disparities, in absolute terms, are relatively small as compared to the European Union. But in relative terms, these have reached some levels which are comparable to the ones from the Czech Republic, Slovakia, Belgium and France. A comparison of the regional disparities from Romania with other European countries, shows the fact that in Romania like in most of the European countries, the most developed region is the one which includes the capital; the less developed regions are the border regions, as well as in the Western Union (for example Austria and Germany where the border regions with the former socialist countries were left behind some regions).

The weak development of most of the regions from Romania is due to some constraints manifested both on an internal level (the limited character of the natural resources, and especially of the energetic resources, the constant deterioration of the land; the demographic imbalance because of the decreasing birth rate, of the ageing of the population and of the migration; the existence of some important economic-social imbalances reflected in productivity, in the living standard, technological level, degree of culture, education, differences from the rural and urban environment, the high percentage of population working in agriculture, extreme natural and meteorological phenomena) and also on an external level (the aggravation of the competition on the global markets, the distortion of the market in the field of the scientific research and knowledge, and of the high technologies, the deterioration of the general environment conditions as a consequence of the climate changes, the reduction of the biodiversity, the danger of the international terrorism, uncontrolled migrations phenomena, the growth of the social polarization).

Table 3

\*)  
**Indices for the regional disparities**

<b>GDP/capita</b>	<b>2003</b>	<b>2004</b>	<b>2006</b>	<b>2008</b>
North-Eastern Region	0,723	0,692	0,675	0,675
South-Eastern Region	0,857	0,907	0,845	0,841
South Muntenia Region	0,812	0,834	0,822	0,821
South-Western Region	0,847	0,833	0,843	0,839
Western Region	1,129	1,147	1,149	1,143
North-Western Region	0,966	0,972	0,920	0,917
Central Region	1,072	1,042	1,087	1,085
Bucharest-Ilfov Region	1,940	1,915	2,044	2,063

Source: 2003, 2004 and 2006 - NIS and prognosis 2008 CNP

\*)These data are calculated as a proportion between the gross domestic product per capita at a regional level and the national average.

The analysis of the data from Table no.4 points out the correlation between the development levels of the regions reflected in GDP per capita and the foreign investments, the SMEs and the structure of the population.

Table 4  
**Key indices for the regional development in Romania (national average = 100)**

-%-

Region	GDP/capita		Unemployment rate		FDI/capita		SME/capita		Rural population	
	1998	2004	1998	2005	1998	2005	1998	2005	1998	2005
North- East	79,8	69,2	127,0	115,2	15,3	7,7	71,3	64,5	127,0	125,5
South-East	100,1	90,7	81,3	108,5	42,7	63,8	101,4	91,4	96,1	98,7
South Muntenia	85,8	83,4	96,9	123,7	65,5	41,2	77,0	67,7	127,3	129,3
South-West	90,0	83,3	76,2	125,4	11,9	31,9	85,9	70,2	117,4	116,4
West	100,9	114,7	133,3	86,4	99,1	76,3	91,2	105,7	82,2	80,7
North-West	95,5	97,2	87,5	67,8	41,9	45,4	106,5	109,0	104,7	104,0
Center	105,9	104,2	110,7	123,7	87,8	62,9	101,1	105,7	87,6	88,9
Bucharest-Ilfov	162,2	191,5	98,4	40,7	598,3	593,5	194,1	228,2	24,0	21,1

Source: The calculation were accomplished on the basis on the National Romanian Statistical Yearbook 1999, 2006

As compared to 1998, there was a growth in the Western, North-Western, Central and Bucharest-Ilfov regions as a consequence of the capacity of these regions to attract foreign investments and they also took advantage from the existent infrastructure. The other indices register a similar evolution: one notices a strong growth of the number of SMEs for the above-mentioned regions, a decrease in the unemployment rate (which is smaller in the Central region) and a decrease in the rural population. But in the other four regions which are less developed there were no significant changes which could allow them to recover the disparities. The North-Eastern and Southern regions are market out both by the agricultural activities but also by the closeness to Moldavia and Ukraine for the first one and the Southern regions the closeness to the Danube which acts as a trans-border barrier for the commerce. The Western, North-Western and Central regions benefit from their closer position to the Western markets and their reduced dependence to the primary sector, and they have drawn more foreign investors, thus contributing significantly to the development of these regions.



For the next period, the estimations regarding the evolution of the gross domestic product point out some evolutions which are superior to the national average and the regions with a lower development level and equal rhythms or evolutions under the national level in the regions with a high development level. The annual evolutions of the regional gross domestic product are sustained by the growth of the activity volume in all the activity fields, but one also notices the evolutions from two sectors: the sector of constructions which shall meet an annual rhythm of growth of over 10% in all regions and the sector of the services which registered on the level of each region an annual rhythm of growth of over 6%. With all these modifications the industry still remains the one which will contribute to the balance between the regions. On a medium term, the forecasted evolution at a regional level, will not lead to significant changes in the percentage of the regions from the national gross domestic product. The region Bucharest –Ilfov will still remain the most important one – and it is estimated that in 2010 this region will register a growth two times higher than the level of the GDP per economy, having thus the most important contribution to Romania's development.

As a Member State of the European Union, Romania will benefit in the period 2007-2013 from financial assistance given by the Convergence and territorial Cooperation objectives of the EU Economic Cohesion Policy and from the Common Agricultural Policy and the Common Fishing Policy. The financial subsidies are of almost 30 milliards Euro for the period 2007-2013. From the three objectives which are to be financed from the Structural and Cohesion Funds, Romania is eligible for two objectives: The convergence and European territorial cooperation objectives.

As a consequence, in Romania there were drafted 7 operational programs for the Convergence objective and other operational programs for the European territorial cooperation objective.

From the total amount of 19,7 million Euro, destined for Romania for the period 2007-2013, 19,2 milliards are for the Convergence objective and 455 million Euro for the third objective – European territorial cooperation.

In order to attain the general objective of the regional development priority according to the NDP for Romania in the period 2007-2013, the elaborated strategy takes into account the following specific objectives:

- the improvement of the general degree of attraction and accessibility of the regions by building or rehabilitating almost 4000 km of roads, 1.500 school units and 150 hospital units until 2015;

- the growth of the competitiveness of the regions as business places by developing and improving up to 2015, 200 supporting infrastructures for the businesses and sustaining up to 1.500 small enterprises;

- the revaluation of the tourism and cultural potential of the regions and the growth of the contribution to these fields, the development of these regions by rehabilitating up to 2015, 200 tourism and cultural sights and the growth of the tourism contribution to the formation of the GDP with 1,25%;

- the growth of the economic and social role of the urban centers by building/rehabilitating 400 ha/km public spaces and implementing 20 integrated urban development projects up to 2015;

- the socio-economic integration of the border areas and the growth of the attraction and accessibility for the Romanian regions in the European territorial frame by strengthening the trans-border, trans-national and inter-regional cooperation.

By putting into practice these programs which were elaborate in the framework of the cohesion policy, one aims at developing the basic infrastructure according to the European standards, the growth of the competitiveness on a long term, the development and the efficient use of the human capital, the development of the managerial capacity, the promotion of the balanced territorial development. It is estimated a growth of the GDP with 15-20% up to 2015, the growth of the employment rate from 57,45 to 64% and the accomplishment of 1400 km of new or rehabilitated roads.

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