

Regional Policy

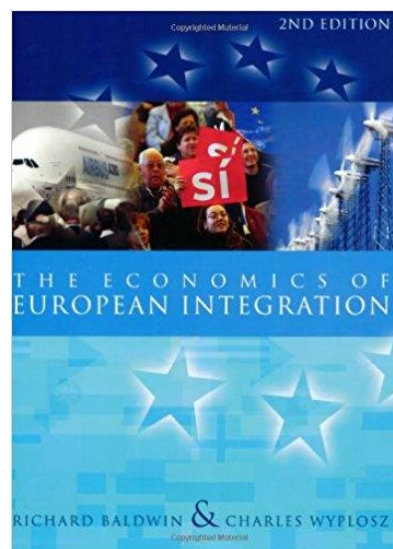
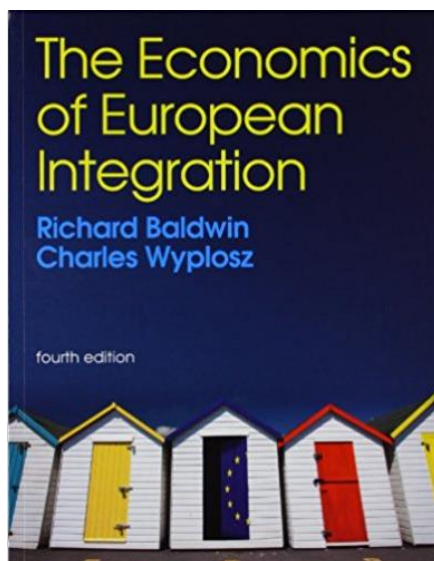
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Charles University

OUTLINE

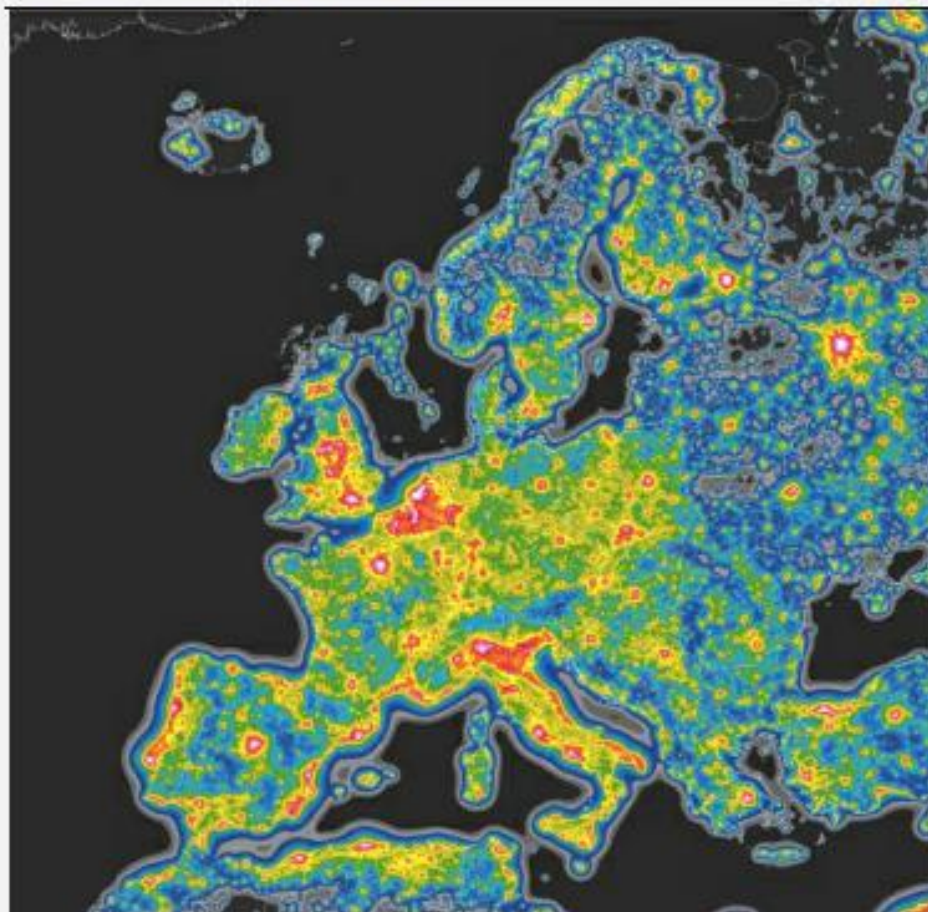
- I. Regional Differences
- II. Evolution of Regional Policy
- III. Economics behind Regional Policy
- IV. Convergence of Regions in Selected EU Countries



Readings: Baldwin, Wyplosz: pp. 269-299 (4th edition) + Baldwin, Wyplosz 251 – 256 (2nd edition)

„REGIONS“ at night

Chart 1 – Europe at night



Source: ScienceAdvances, <http://advances.sciencemag.org/content/2/6/e1600377>

Note: White and red areas indicate the greatest amount of artificial light, i.e. city agglomerations. Black areas show areas with natural darkness.

I. Regional Differences

„REGION“ at sub-national and supra-national level

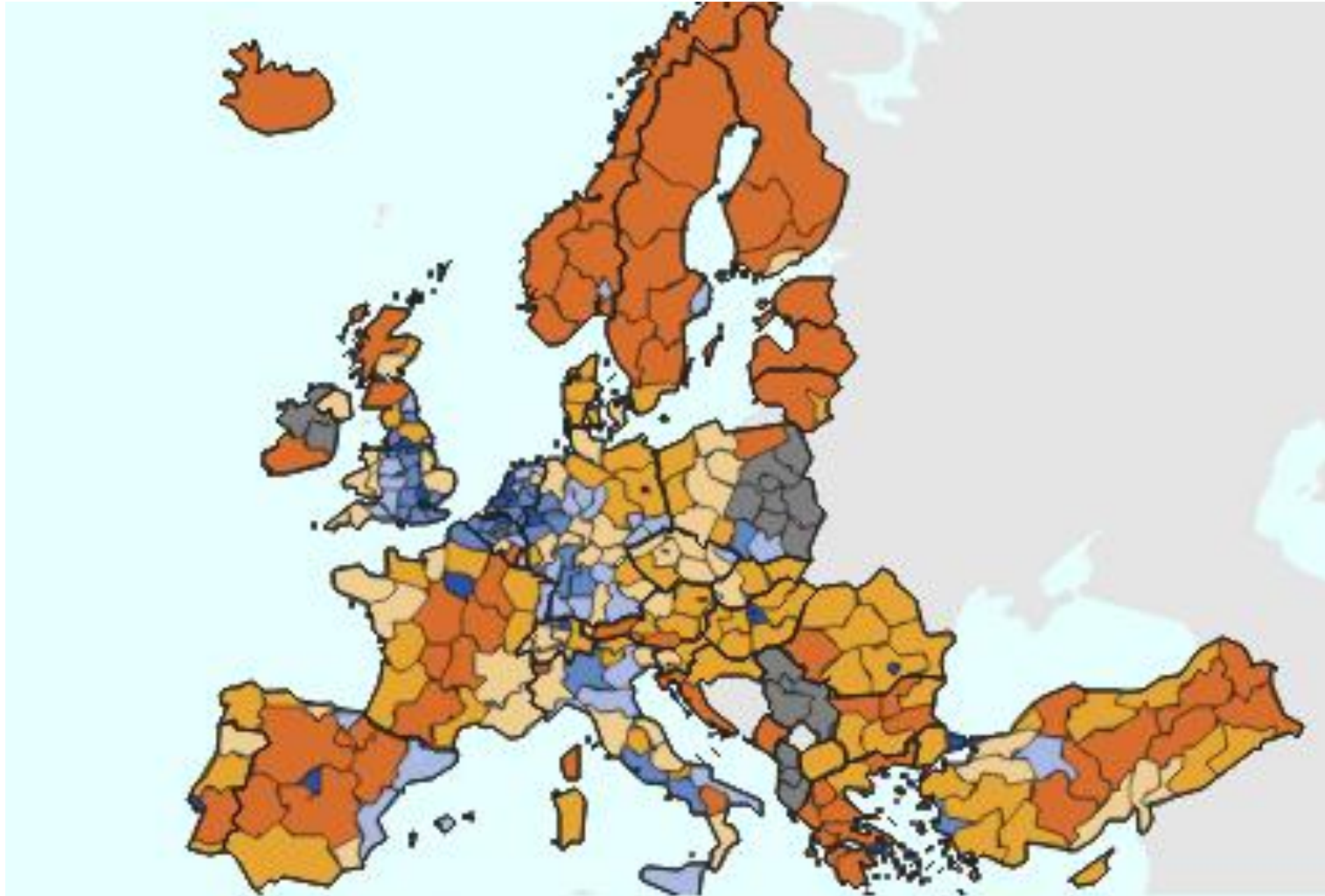
- In statistical contexts **region** can have two distinct meanings; it can refer to a geographical area:
 - **at sub-national level**, a subdivision of a country, at different possible levels, but most commonly at level 1 of the Nomenclature of territorial units for statistics (NUTS);
 - **at supra-national level**, a region among countries, or a region of the world such as 'Latin America', 'Sub-Saharan Africa', 'South East Asia', etc.; many international organisations are organised at the level of world regions: e.g. AU, ASEAN, CAN, NAFTA - and of course the European Union (EU). Within the EU, countries are sometimes also grouped in supra-national regions like the Baltic Member States, the Benelux, the Mediterranean Member States or the Nordic Member States.

- **NUTS = The Nomenclature of territorial units for statistics**, abbreviated **NUTS** (from the French version *Nomenclature des Unités territoriales statistiques*) is a geographical nomenclature subdividing the economic territory of the European Union (EU) into regions at three different levels (NUTS 1, 2 and 3 respectively, moving from larger to smaller territorial units).
 - Above NUTS 1, there is the 'national' level of the Member States.
 - Hierarchical system for dividing up the economic territory of the EU for the purpose of framing EU regional policy (regions eligible for aid from structural funds)
 - For each EU member country a hierarchy of three NUTS levels is established by Eurostat
 - NUTS classification does not necessarily correspond to administrative divisions
 - The current NUTS classification, valid from 1 January 2015, lists 98 regions at **NUTS 1**, 276 regions at **NUTS 2** and 1342 regions at **NUTS 3** level

Level	Minimum	Maximum	Number (In 2012)
NUTS 1	3 million	7 million	97
NUTS 2	800,000	3 million	270
NUTS 3	150,000	800,000	1294

NUTS 1	major socio-economic regions
NUTS 2	basic regions for the application of regional policies
NUTS 3	small regions for specific diagnoses

Population density (NUTS 2) regions (persons/1km²)

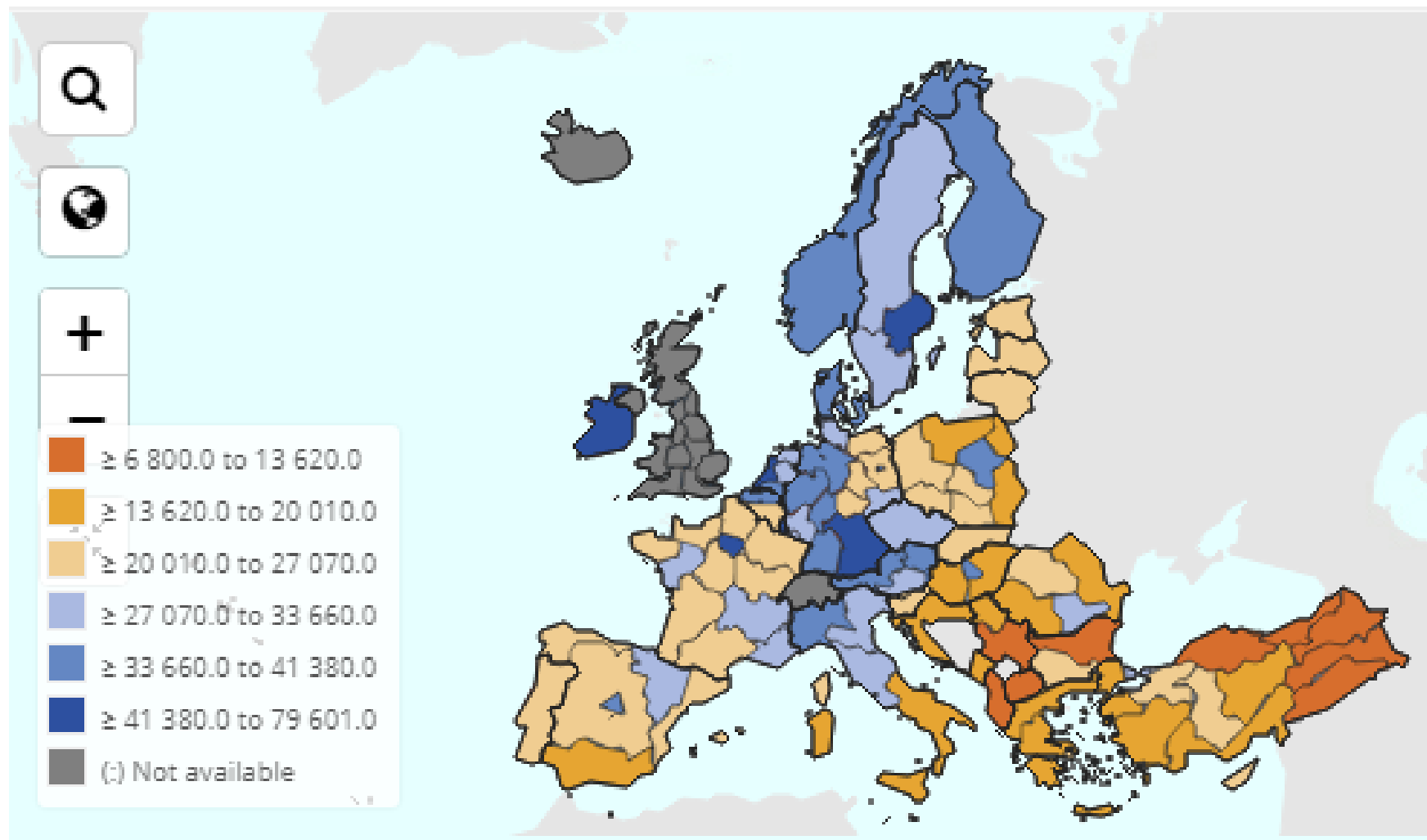


<https://ec.europa.eu/eurostat/cache/RCI/#?vis=nuts2.population&lang=en>

Regional differences

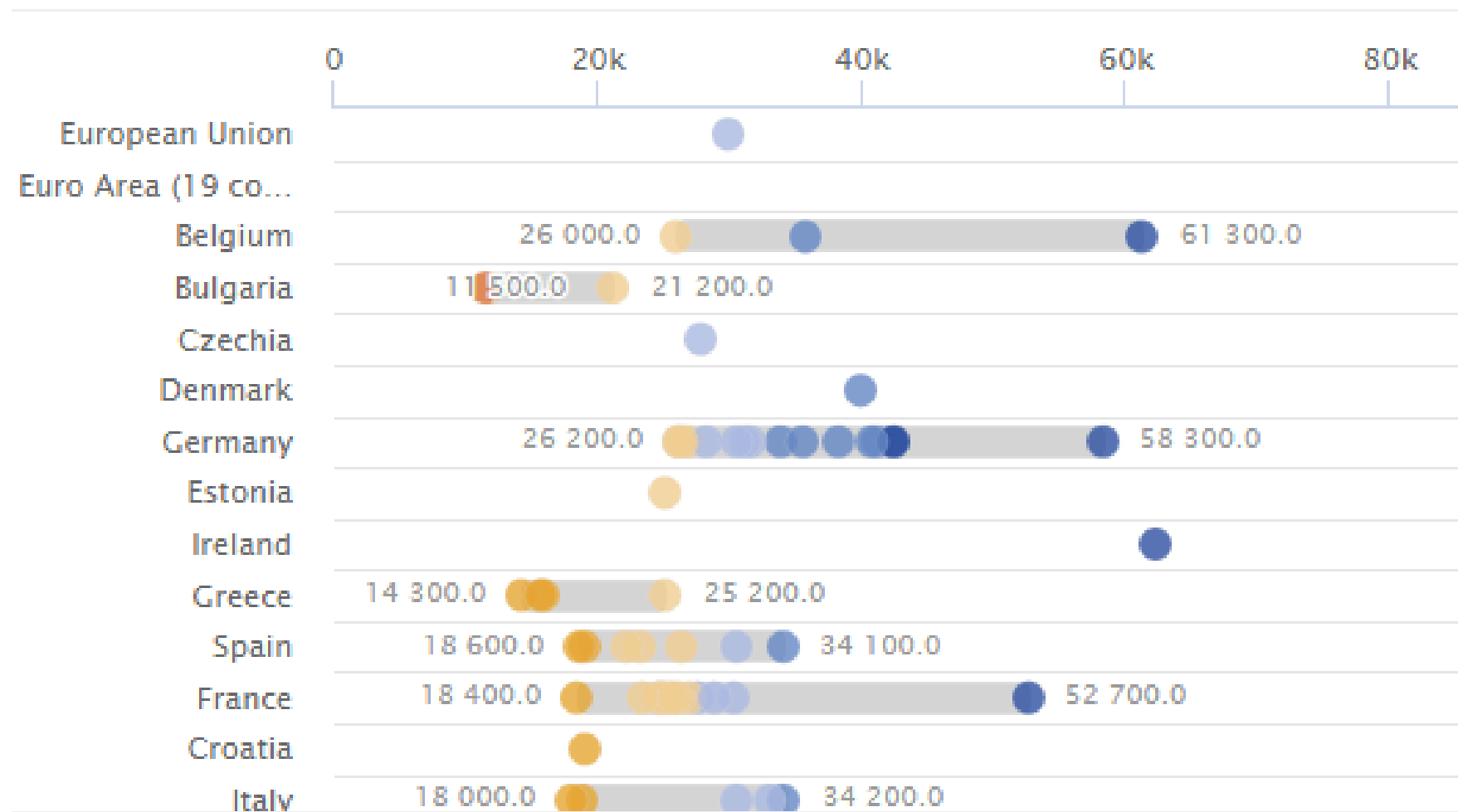
- **Regional differences in GDP per capita (in PPS)**
 - Rich regions: Inner London (328 % of EU-27), Luxembourg, Brussels, Hamburg
 - Poor regions: Severozapaden (BG, 27 % of EU-27), several other regions in BG and RO
 - Around a quarter of EU population lives in regions where GDP is less than 75 % of the EU
- **Regional differences within countries**
 - Ratio between the highest and the lowest level regions
 - Highest in UK (factor 4.7), lowest in Slovenia (factor 1.4)
 - Capital city regions have the highest GDP per inhabitant
- **Other indicators of regional disparity**
 - Availability and accessibility of jobs
 - Standard of living (environment, health service, etc.)

GDP at market prices (NUTS 1) per capita (2020)



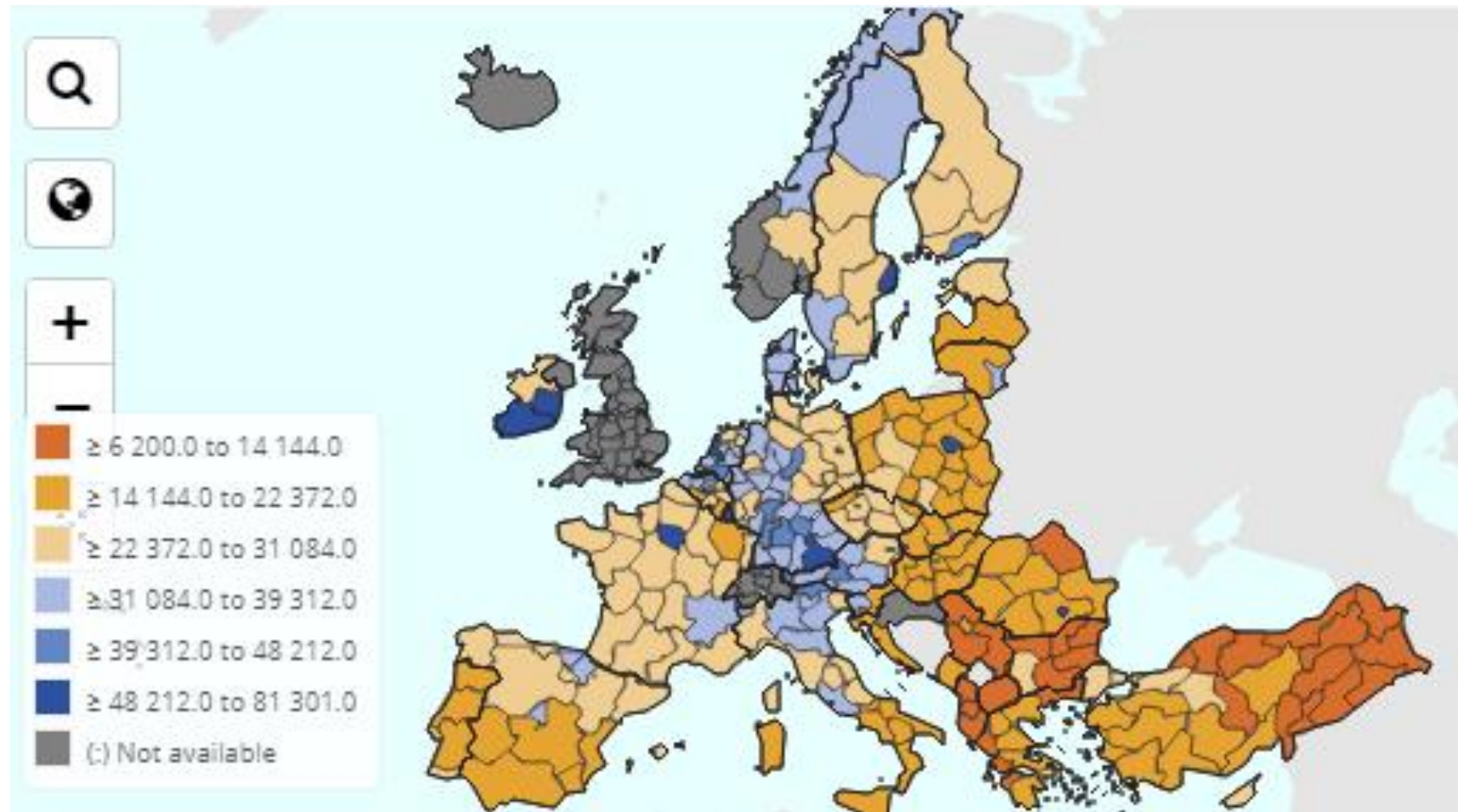
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GDP at market prices (NUTS 1) per capita (2020)



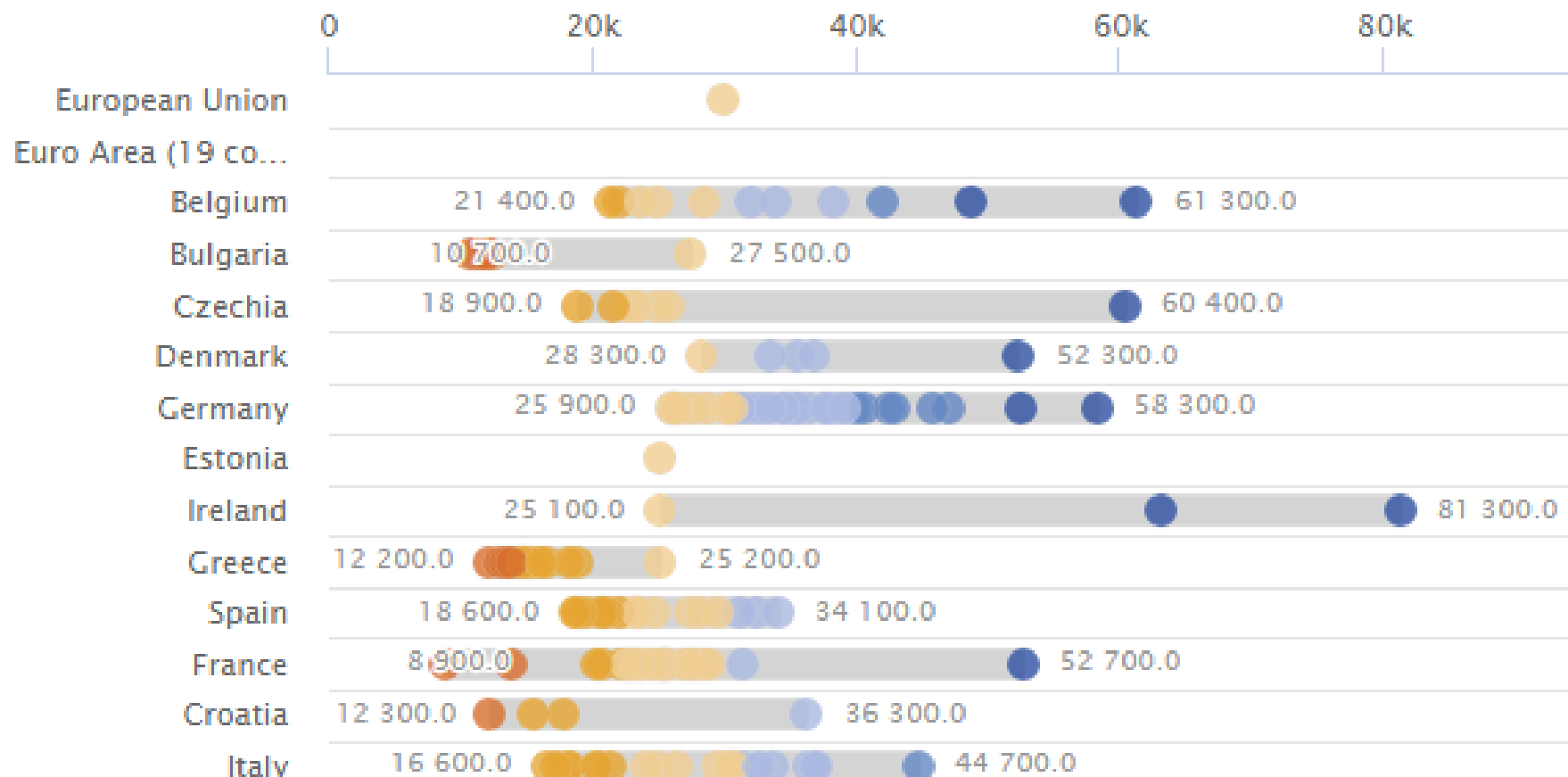
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GDP at market prices (NUTS 2) per capita (2020)



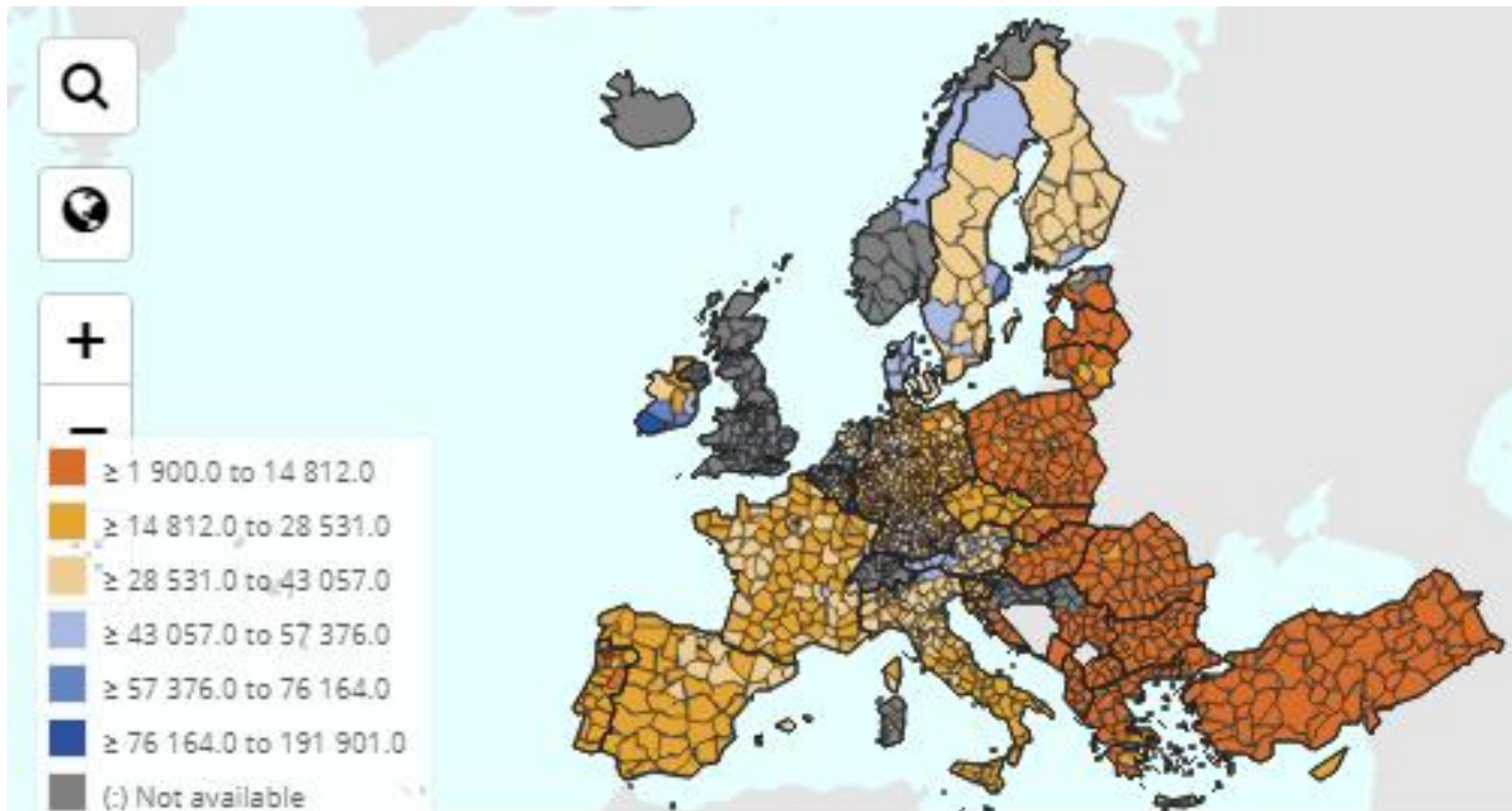
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GDP at market prices (NUTS 2) per capita (2020)



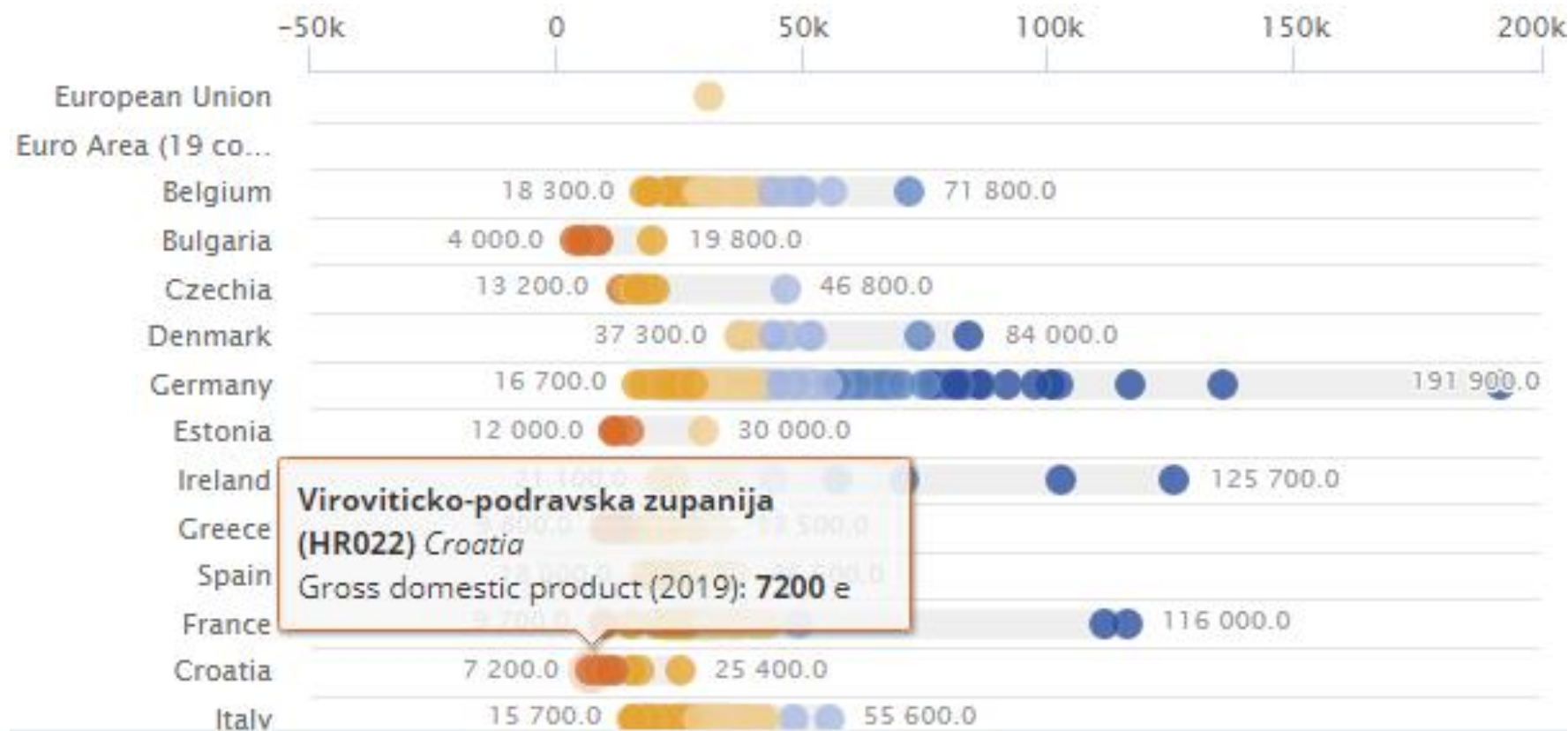
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GDP at market prices (NUTS 3) per capita (2020)



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GDP at market prices (NUTS 3) per capita (2020)



<http://ec.europa.eu/eurostat/cache/RCI/#?vis=nuts3.economy&lang=en>

Arguments that **integration** supports convergence

- I. More benefits from free trade
 - Regions can better specialize in areas where they have comparative advantage (Heckscher-Ohlin theory)
- II. Wage equalization through labour and capital mobility
 - Labour will be leaving regions with lower wages and moving to regions with higher wages ($L \Rightarrow W_A ; W_A > W_B$)
 - Capital will be attracted to less developed regions with lower wages and higher returns on capital ($K \Rightarrow W_B$)
 - “Law” of diminishing marginal productivity will be reflected in slower growth in wealthier regions and faster growth in poorer regions (neoclassical growth theory)
- III. Internal market project is based on the view that integration is key instrument for removing regional inequalities
 - Public interventions through income redistribution may be necessary in promoting regional convergence

Arguments that **integration deepens divergence**

■ I. Agglomeration effects

- Larger markets offer additional benefits (developed infrastructure, reduced transport costs, higher number of customers, vicinity of suppliers, developed network of financial services, etc.)
- Circular causality - large agglomerations tend to become even larger (self-enforcing character of agglomeration effects, EE-KK model)
- Countervailing congestion effects (rising price of land, higher wage costs, more intense competition, etc.)

■ II. Modern growth theories

- Accumulation of knowledge and innovations in some regions preserves regional disparities
- Different vintages of capital that are coming from technological change may lead to increasing marginal productivity of capital
- Structural problem “*computer chips versus potato chips*”
- More prosperous areas can enjoy on-going long-term growth and vice versa

II. Evolution of Regional Policy

Evolution of regional policy (1)

■ Beginnings of EEC (The European Economic Community)

- Rome Treaty spoke generally about harmonious and balanced growth, but adoption of common regional policy was not envisaged
- Measures for distressed regions implemented widely at national level (tax concessions, subsidies, investment targets, support of SMEs)
- Founding members represented relatively homogeneous group (exception was Mezzogiorno in Italy)
- Period of fast growth and high employment made common regional policy less urgent

■ New institutions

- **European Investment Bank (EIB):** source of cheaper credit for financing projects in less developed regions
- **European Social Fund (ESF):** created in 1960 with the aim to increase employment opportunities and improve living standards
- Important regional dimension of **EAGGF (European Agricultural Guidance and Guarantee Fund)**
- Limited impact of Community regional assistance due to insufficient funding

Evolution of regional policy (2)

■ First and second enlargement

- 1973 (Denmark, Ireland, United Kingdom), 1981 (Greece)
- Greater Community-wide regional disparities (**Ireland 40 % below average**, sharp regional differences in UK, **Greece 50 % of average**)
- Economic recession in the first half of 1970s contributed to deepening of regional disparities (the first and the second oil price shock)

■ *New institutions*

- *European Regional Development Fund: created in 1974 with the aim to strengthen regional convergence*
- *Compensation of UK for little benefit from CAP*
- *ERDF sources were allocated among MS according to the system of fixed national quotas, selection of assisted regions was made by MS themselves*
- *Controversies: unfairness (poor regions in rich countries wealthier than rich regions in poor countries), fragmentation (different national criteria), underfunding of Community regional policies, replacement of national funding*
- *First reform in 1979: non-quota section (5 % of ERDF sources allocated by Commission, gradually increased to 20 %), projects assessed according to Community objectives*

Evolution of regional policy (3)

■ **Challenges in the second half of 1980s**

- **Third enlargement** (1986 Spain and Portugal): poor agrarian countries well below average, high unemployment, sharp regional differences
- Unsatisfactory growth performance severely hit regions with concentrated industries (coal mining, shipbuilding, textiles) and agriculture
- **Single European Act in 1986:** ambitious plans to create Single Market lead to concerns about net loss for less competitive and periphery regions

■ **1988 reform**

- Part of a wider package of reforms covering also CAP and Community budget (effective from January 1989)
- Concept of economic and social cohesion: The degree to which disparities in social and economic welfare between different regions or groups within the Community are politically and socially acceptable
- Doubling of structural funds (common name for ESF, ERDF and guidance part of EAGGF) between 1987 and 1993 (from 6,3 to 14 bn. ECU)
- **Formulation of principles of operation** (difficult enforcement due to diverse financial practices in MS)

Principles of operation

■ Concentration

- Concentration of Community regional spending on concrete objectives defined at the Community level
- 1989 priorities: underdeveloped regions, declining industries, long-term unemployment, unemployment of young people, agriculture

■ Programming

- Allocation of funds to multi-year programmes rather than to individual ad hoc projects
- Strengthening of all requisites of programming approach: planning, operational and financial efficiency, evaluation, accountability

■ Partnership

- Closer cooperation among all involved partners: Community, national governments, regional and local bodies
- Desire to create direct links between Community level and regional administrations

■ Additionality

- Community funds should serve as a source of additional genuine effects for underdeveloped regions, not as a replacement of funding by national authorities

Structural funds (SF)

■ European Social Fund (ESF)

- The oldest fund established in the Treaty of Rome
- Objectives: employment policies, education and professional training, social inclusion of disadvantaged groups, equal opportunities of men and women, improving living standards, etc.

■ Agricultural Guidance and Guarantee Fund (EAGGF)

- Set up in 1962 with the creation of CAP
- Objectives of Guidance Part: adaptation and modernization of farm structures, development of rural areas
- In 2007 replaced by European Agricultural Fund for Rural Development

■ European Regional Development Fund (ERDF)

- Created in 1974 (started operating in 1975)
- Key instrument of regional policy used to finance structural assistance to the most underdeveloped regions and to reduce inter-regional disparities.

■ Financial Instrument for Fisheries Guidance (FIFG)

- Created in 1993 (part of preparations for the Nordic enlargement)
- Objectives: modernisation of EU fleet, safeguarding marine areas, improving procession and marketing of fish
- Since 2007 replaced by European Fisheries Fund

Evolution of regional policy (4)

■ 1990s – *preparations for single currency*

- *Intensified concerns that tighter integration might favour mostly Europe's industrial core*
- *Peripheral countries should be compensated by an increase in regional assistance*

■ Cohesion Fund (CF)

- Legal foundations were laid by Maastricht Treaty
- Objective: supporting selected projects in less developed countries
- Targeted areas: pan-European networks, environmental protection
- Cohesion country threshold: GDP per capita less than 90 % of EU average
- Obligation of cohesion countries to formulate Convergence Programme (approved by Council) and to comply with the requirements of SGP

■ Committee of Regions

- Advisory body composed of representatives of local and regional authorities

■ Eastern enlargement (2004, 2007)

- All new MS became cohesion countries
- Statistical effect of enlargement: new poor countries reduced the average GDP per capita ⇒ some regions in old MS were no longer eligible for assistance from structural funds (East Germany, Spain, Sweden, Finland)

Comparison of financing channels

■ SF versus CF

- SF: targeted at EU regions or at cross-sectional policies
- SF eligible regions: region's GDP per capita less than 75% of EU average
- CF: targeted at EU cohesion countries
- CF eligible MS: GDP per capita less than 90% of EU average

Since 1st Jan 2000 included Greece, Ireland, Portugal, Spain, not Italy

Since 1st Jan 2003 excluded Ireland

Since 1st May 2004 included all new EU member states

■ SF,CF versus EIB

- SF,CF: grants (non-repayable financial assistance)
- EIB: commercial loans charging favourable interest rates thanks to low borrowing cost (based on EIB' first-class rating) and granted government guarantees

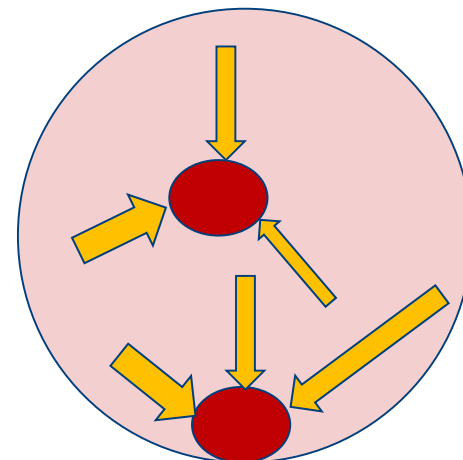
III. Economics behind Regional Policy

- **Two major approaches** linking economic integration to change in the geographic location of economic activity.
 - **Comparative advantage (CA):** suggests nations specialise in sectors in which they have a comparative advantage.
 - **New Economic Geography:** suggests that integration tends to concentrate economic activity spatially.
- When productive factors can cross borders (international or inter-regional) integration may have very different effects.
- Scale economies & trade costs generate forces that encourage geographic clustering of economic activity.
 - "Overall clustering" = some areas with lots of economic activity, others empty "core-periphery".
 - "Sectoral clustering" = each sector clusters in one region, but most regions get a cluster.

The logic of economic geography: 2 pillars

■ Agglomeration (pro-concentration) forces (AF)

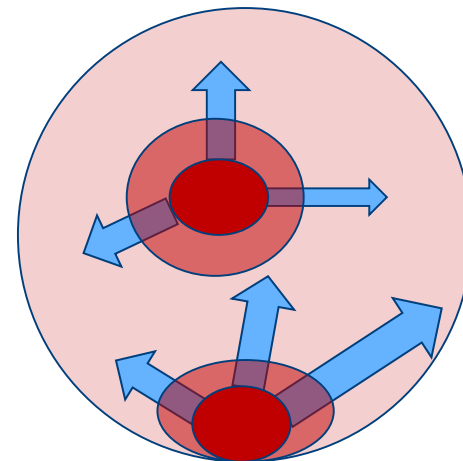
- Promote the spatial concentration of economic activity (tent to lead industry to cluster geographically).
- Exist when the spatial concentration of economic activity creates forces that encourage further spatial concentration.
 - **Demand linked AF:** Firms want to locate where they have good access to a large market
 - **Cost linked AF:** It is cheaper to sell to nearby customers



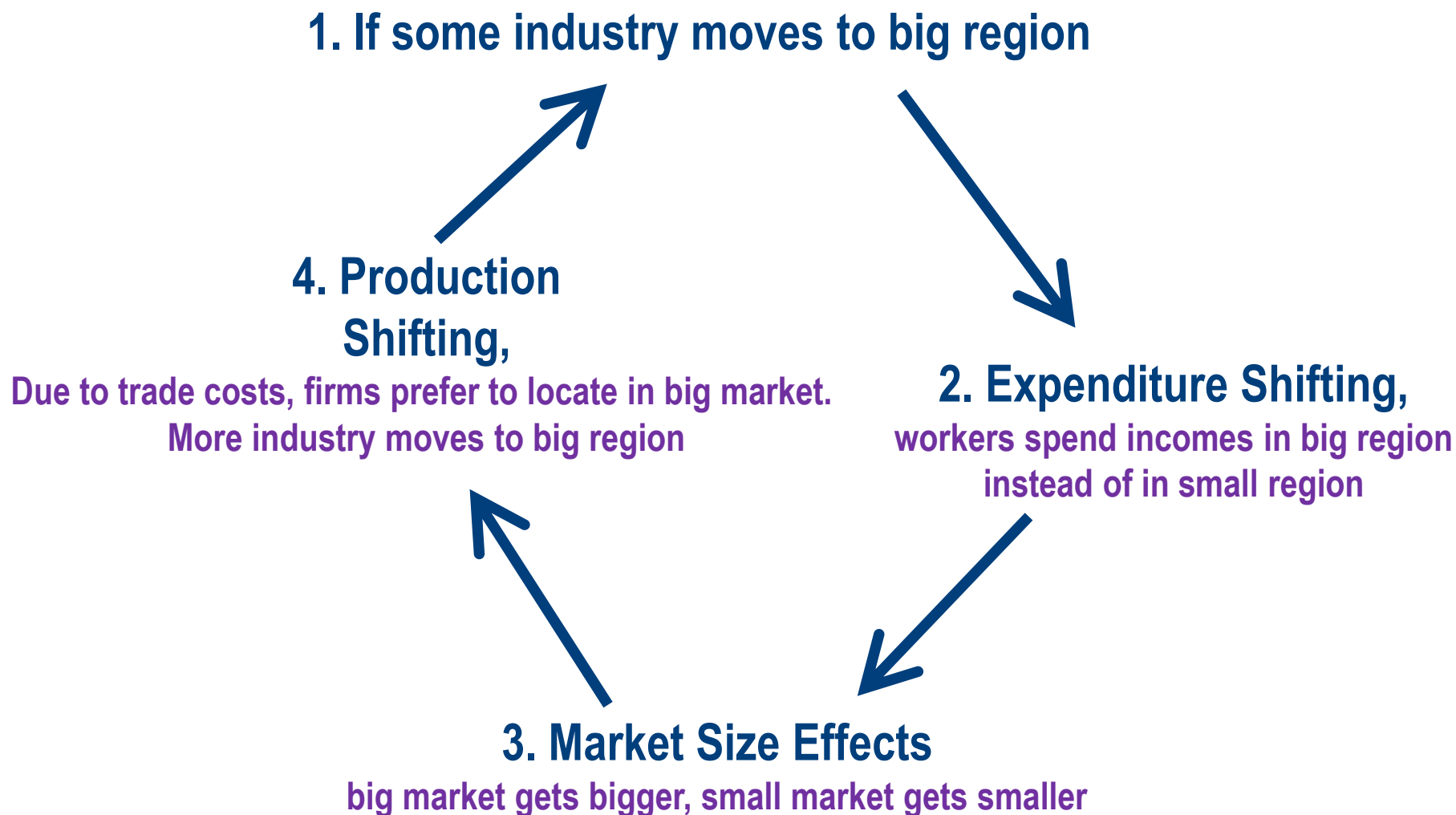
Circularity: workers move because the jobs concentrate and, at the same time, the jobs concentrate since workers concentrate.

■ Dispersion (anti-concentration) forces (DF)

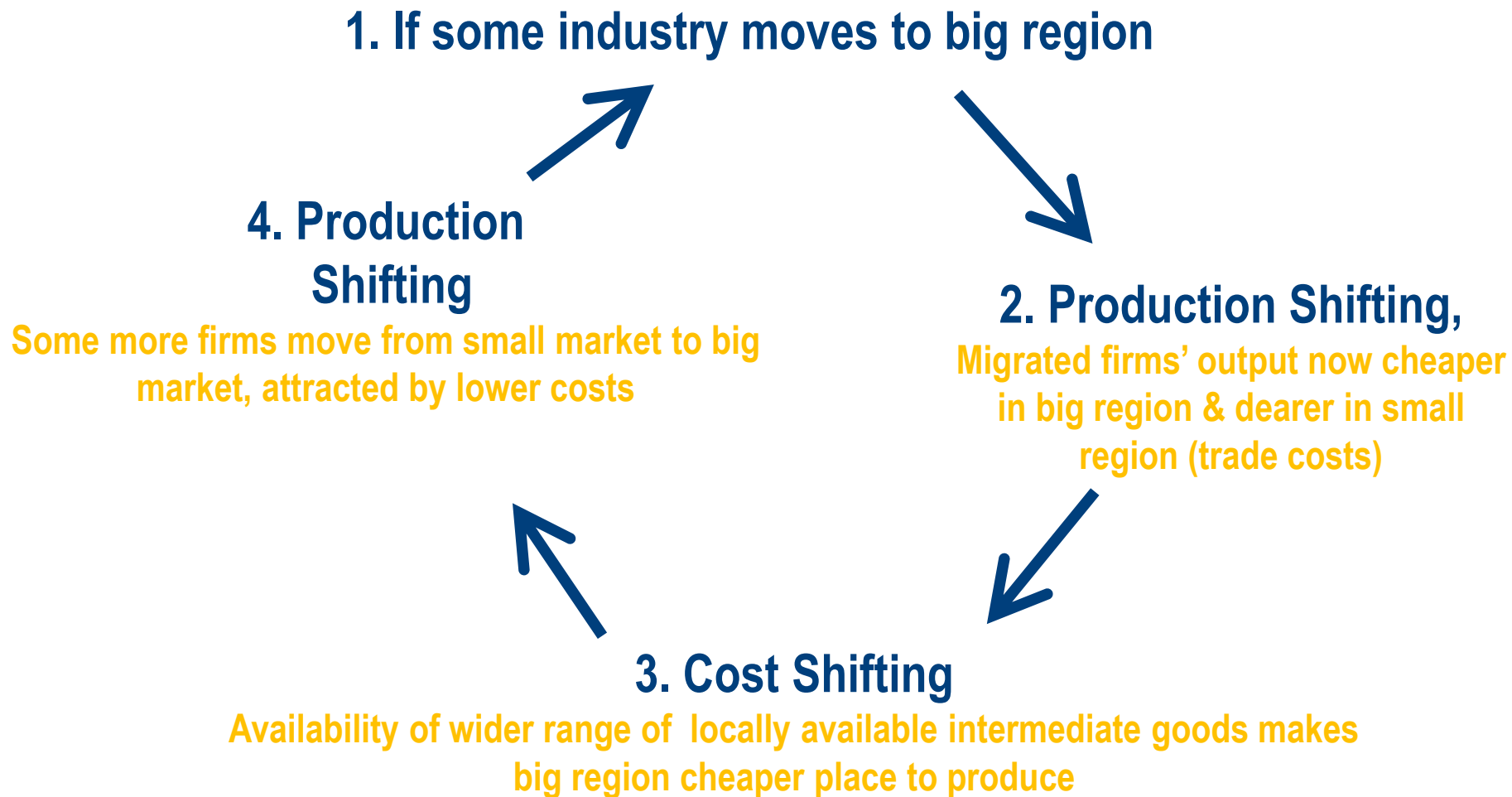
- discourage such concentration (tent to encourage industry to disperse geographically)
- Favour the geographic dispersion of economic activity
 - **Congestion-based DF** = less light, noise and air pollution, etc.
 - **Local competition forces** = firms are naturally attracted to markets where they would face few locally based competitors (given trade costs and imperfect competition).
- *Example: Land prices => Firms and workers would prefer to work in less built areas (congestion-based DF).*



Demand- and Supply-linked circular causality



Demand- and Supply-linked circular causality

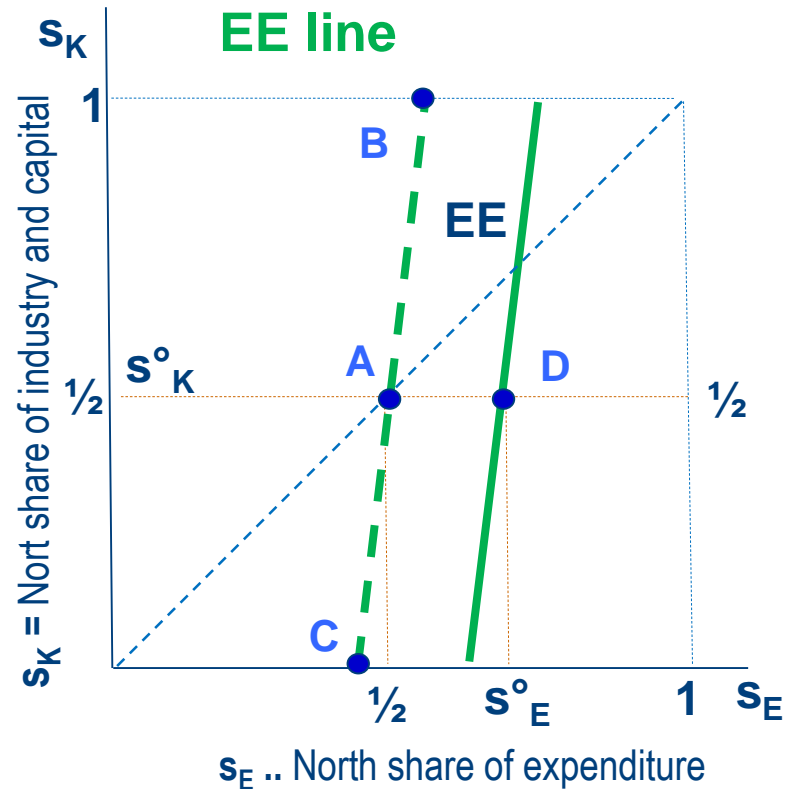


EE-KK model

- **EE-KK model:** illustrates the logic of agglomeration and dispersion forces, in the form of diagram that relates relative market size to the relative number of firms
- **Simplifying assumptions:**
 - Firms will choose one location only
 - **2 regions**, **north** and **south**, no comparative advantages between N and S
 - **2 factors**, **capital** (mobile), **labour** (immobile),
 - **2 sectors**, **services** (L-intensive), **industry** (K-intensive).
 - ✓ Firms are subject to scale economies (average cost of production falls as the scale of production rises) => firms benefit from concentrating production
(Examples: production of car engines => high concentration x production of cheese => low concentration)
 - ✓ No comparative advantage effects between N and S => same technology and factor supplies
 - ✓ Immobile labour across regions and very mobile capital across regions
 - ✓ N and S have half (1/2) of the total supply of the immobile labour
 - ✓ Wages in N and S are fixed and the same => no wage-related reason to move round (rule out one very important dispersion force, i.e. the tendency of agglomeration to drive up wage rates in the core region).
 - ✓ No intermediate goods = no cost linkages

EE curve / line

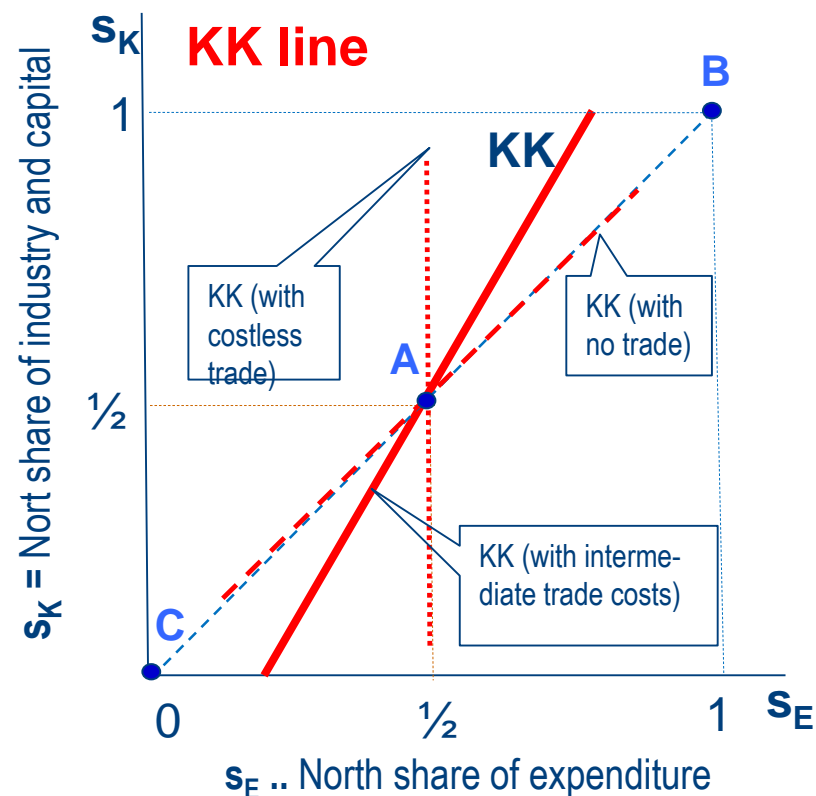
- EE shows demand linkage of agglomeration, i.e. relationship btw. s_E and s_K
 - s_E - the relative market size of North ($S_E > 1/2 \Rightarrow$ the N is the bigger market)
 - s_K - the share of industry in the North (share of industry and share of capital K are identical from assumptions)
- EE upward sloped; as N gets a larger share of industry its market becomes larger relative to that of the south.
- EE steeper than 45° ; the mobile factor makes up only part of total expenditure.
- For EE line, trade costs don't matter, what matters is how much labour and capital is in each region.
- EE shift: As north's labour share rises, EE shifts to right.



1. Industry (and thus capital) were evenly split btw. N and S ($s_K = 1/2$) \Rightarrow the same sized markets in N and S \Rightarrow expenditures are the same in N and S ($s_E = 1/2$) \Rightarrow **A**
2. All industry (and thus capital) were in N $\Rightarrow s_E \in (1/2; 1) \Rightarrow s_E > 1/2$: N would have half the L income and all the K income and $s_E < 1$: S still has all the income of its immobile workers (working only in the service sector) \Rightarrow **B**
3. All industry (and thus capital) were in S \Rightarrow **C**
4. S is fundamentally smaller than N (N has more than $1/2$ of immobile factor) $\Rightarrow s_E > 1/2$ because N would have more than $1/2$ of labour ($L_N > 1/2$) and $1/2$ of capital ($K = 1/2$) \Rightarrow **D** \Rightarrow **EE curve for the asymmetric size case.**

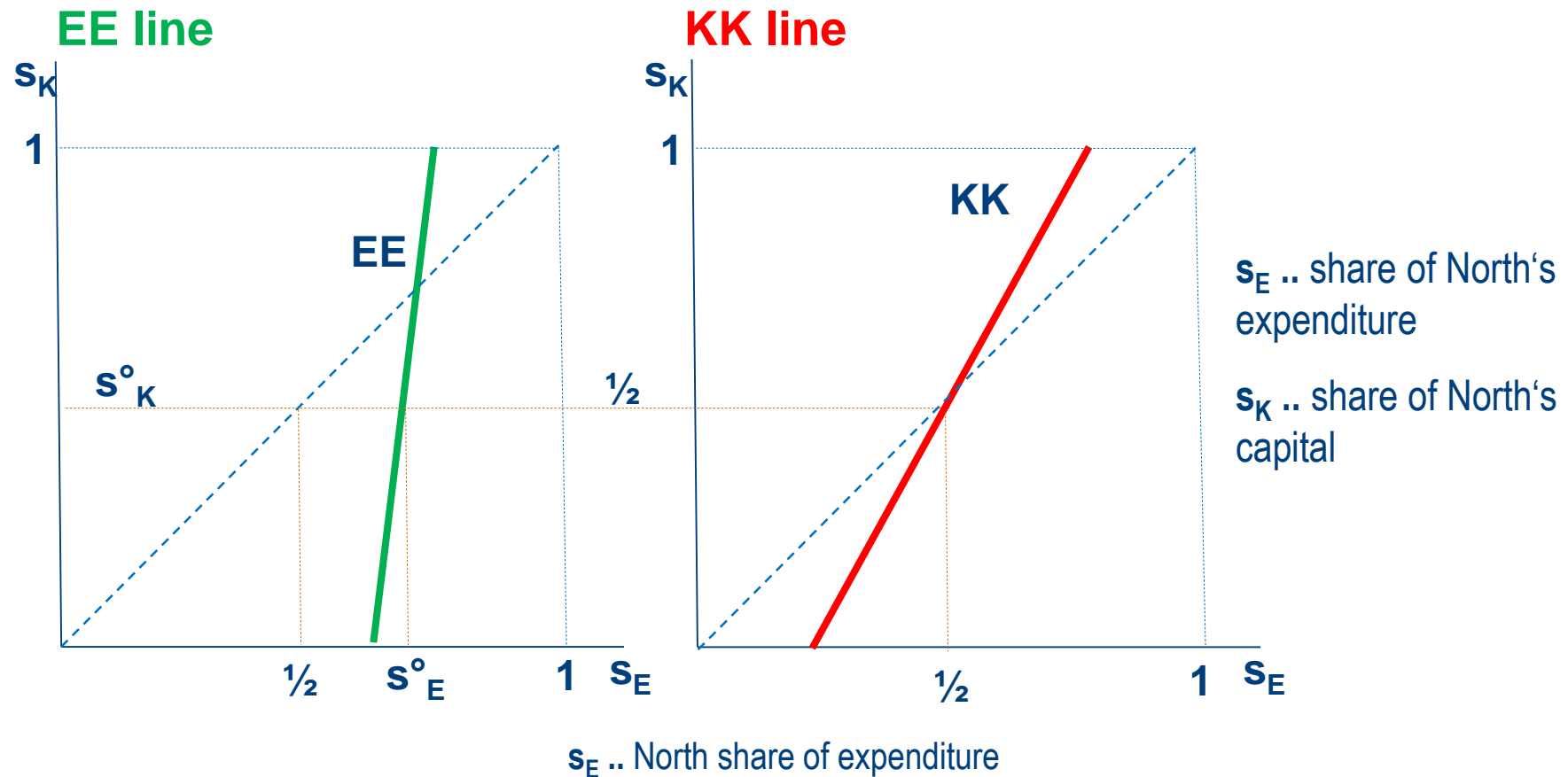
KK curve / line (2)

- **KK** – combination of s_K and s_E that do equalize rates or return of capital
- **KK** is upward sloped.
- **Steeper than 45°** (due to home market effect, expect in the extreme case of no trade).
- The level of trade costs affects the KK curve => trade costs ↓, KK gets steeper.
- The Share of labour in the two regions has no impact on KK.



1. No trade between the regions (= 45° line) => point **A**: what would be the equilibrium division of industry for $s_E = 1/2$, similar: (i) N has 100% of expenditure => N must have 100% of firms (point **B**) or (ii) N has 0% of expenditure => N must have 0% of firms (point **C**)
2. Point A \wedge $s_E \uparrow$ by 10% => automatic reduction of south share of expenditure by 10% and if $s_K = 1/2$ when $s_E > 1/2$ => firms in N would sell more than those in S and thus earn more => the degree of competition in N would have to rise by 10% and the degree of competition in S would have to fall by 10%. Still no trade btw. N and S => 10% increase of competition requires a 10% increase in the number of firms in N and 10% reduction of firms in S (because no export is possible).

EE-KK model – basic blocks

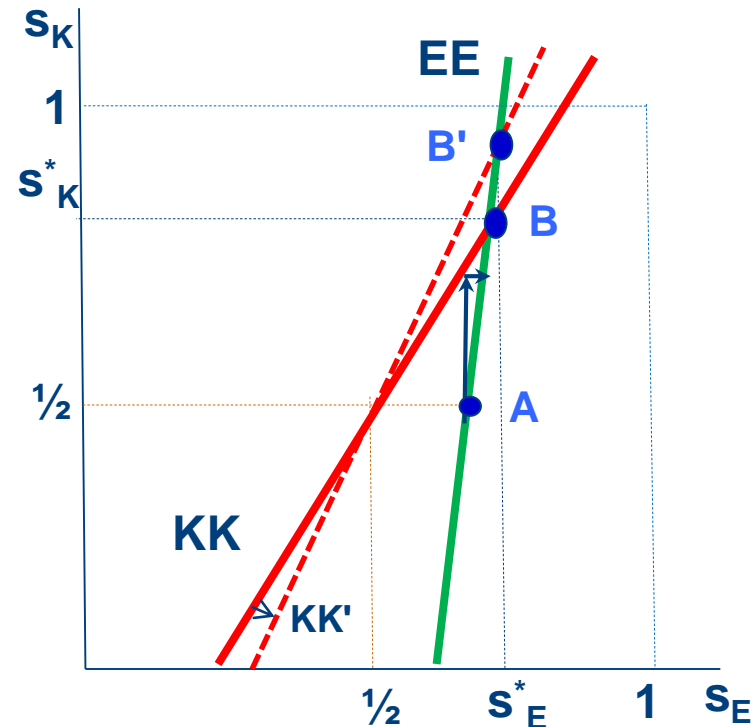


EE line - demand effect of agglomeration: relationship between the share in capital s_K and the resulting share in expenditure s_E (in agglomeration North)

KK line - supply effect of agglomeration: relationship between the share in expenditure s_E and the resulting share in capital s_K (in agglomeration North)

EE-KK model – spatial equilibrium

- KK shows how production shifting leads to expenditure shifting. KK tells us what s_K will be for any given s_E
- EE shows how expenditure shifting leads to production shifting. EE tells us what s_E will be for any given s_K .
- Intersection of EE and KK shows equilibrium s_K and s_E
=> the rewards to capital are equalized between regions and given this equilibrium s_K , the relative market sizes are given by EE.
- If economy starts elsewhere, say A, expenditure and production shifting move it to B.
- B is a stable outcome



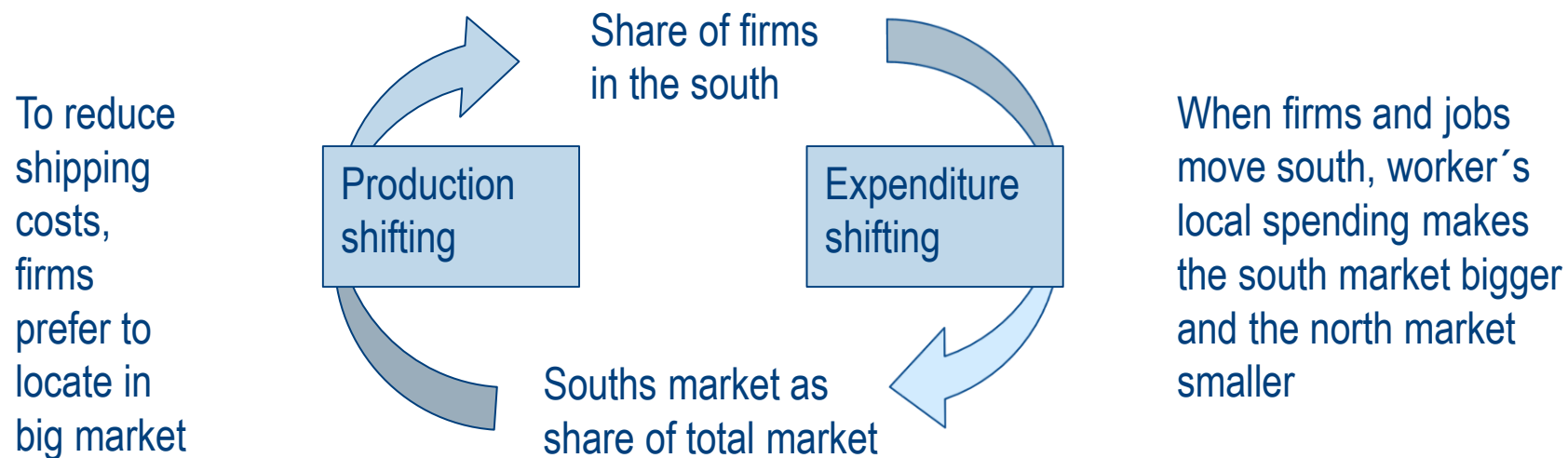
■ Properties of spatial equilibrium

- More than proportional concentration of firms and capital in the stronger North agglomeration
- Agglomeration effects are setting into motion convergence towards the spatial equilibrium

■ The impact of economic integration!!!

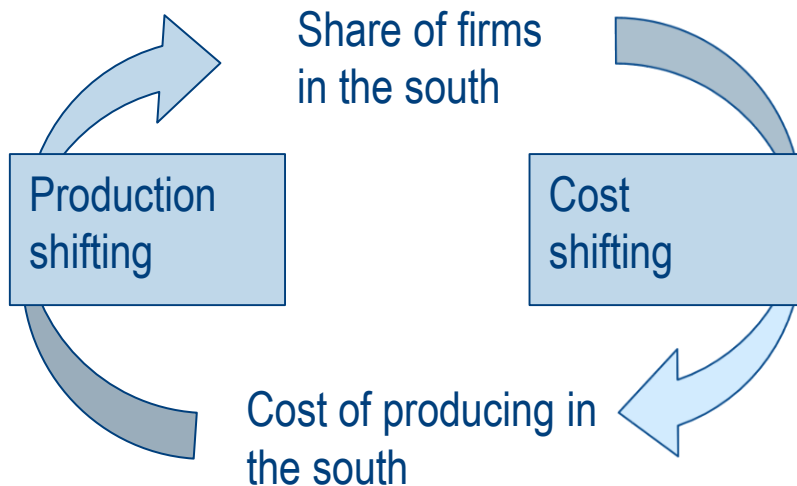
- KK move to KK', (steeper KK line) => lower trade costs due to economic integration => shift to B'

Demand- and Supply-linked circular causality



Demand- and Cost-linked circular causality

To take advantage of the wider range of intermediate goods, firms move to the south



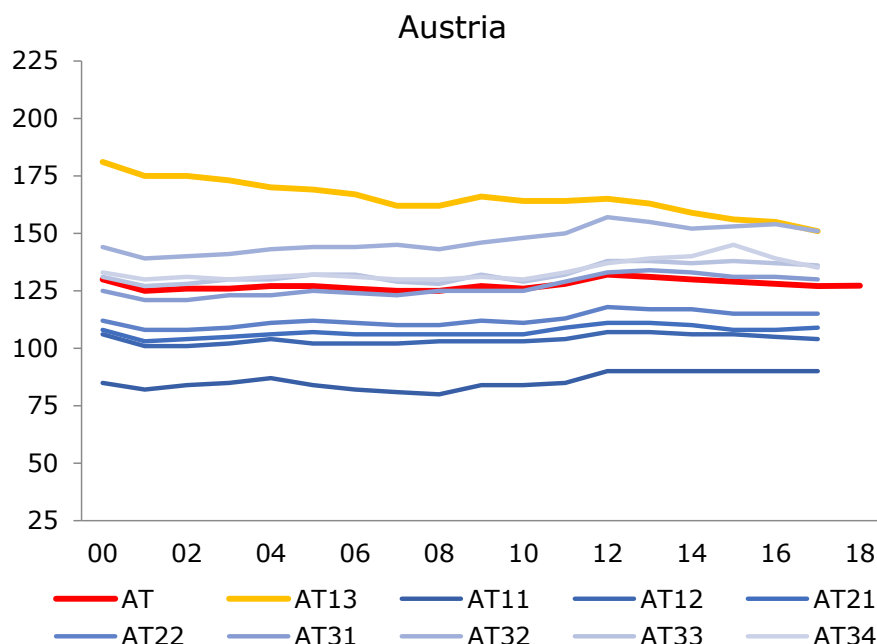
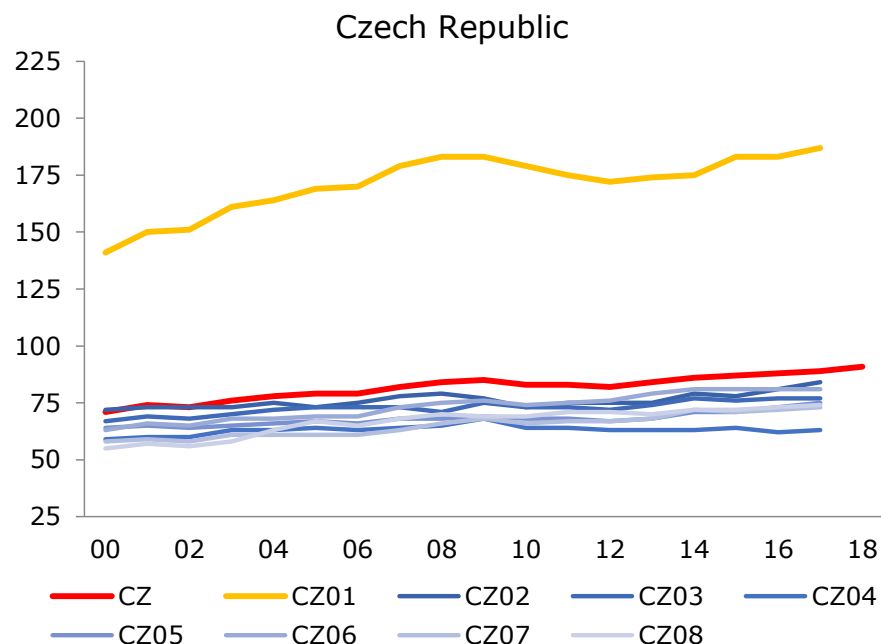
When firms move south, the range of intermediate goods in the south expands while contracting in the north

IV. Convergence of Regions in Selected EU Countries

- **Supporting regional growth and reducing disparities in wealth between EU regions are key economic policy areas in Europe.**
- A substantial part of the EU budget is devoted to regional policy, primarily through support disbursed from **structural** and **cohesion** funds. GDP per capita at purchasing power parity at the NUTS 2 regional level is used as the measure of wealth.
- The reference value for regional policy is the EU average.
 - **Structural funds:** NUTS 2 regions with GDP per capita below 75% of the average are given priority in the drawdown of EU structural funds.
 - **Cohesion funds:** The reference value for support from cohesion funds is GDP per capita below 90% of the EU average.
- The Czech Republic is divided into eight NUTS 2 cohesion regions: CZ01 Prague, CZ02 Central Bohemia, CZ03 South West, CZ04 North West, CZ05 North East, CZ06 South East, CZ07 Central Moravia and CZ08 Moravia-Silesia.
- **Full article:** https://www.cnb.cz/export/sites/cnb/en/monetary-policy/.galleries/geo/geo_2020/gev_2020_02_en.pdf#page=13

Real GDP across NUTS2

Chart 1: Real GDP per capita at purchasing power parity
(EU28 = 100%)

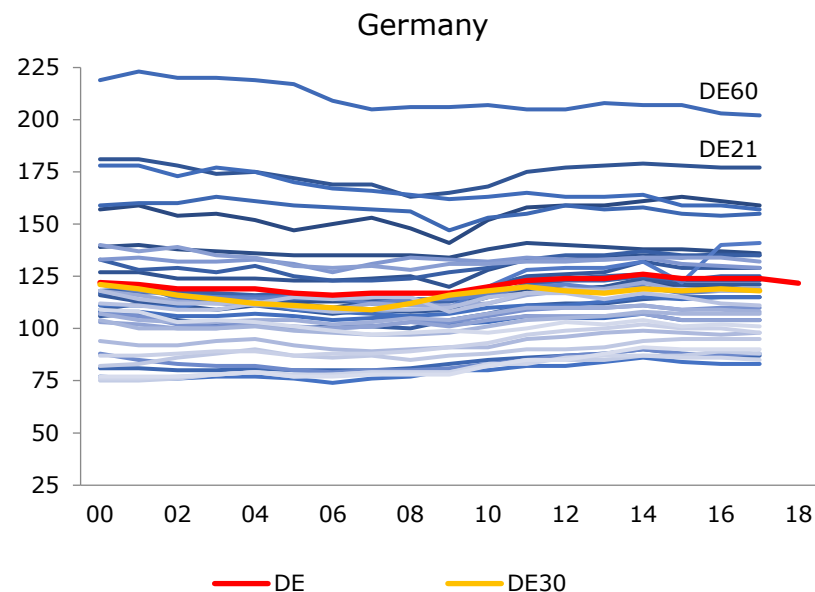
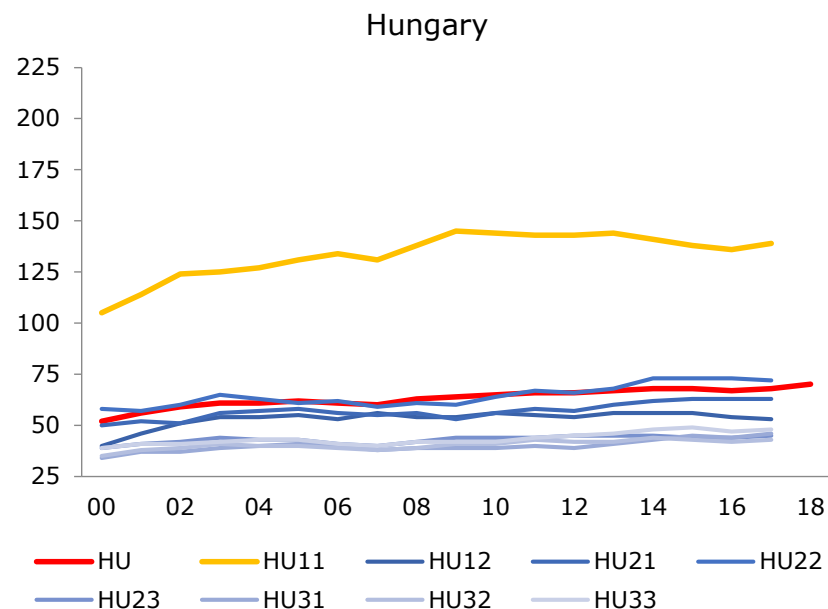


Note: The chart shows the evolution of GDP per capita in selected EU countries at the regional level. The codes correspond to the NUTS 2 region nomenclature. The red line denotes the national level (for comparison); the next in the sequence is the capital city (orange line).

Source: Eurostat.

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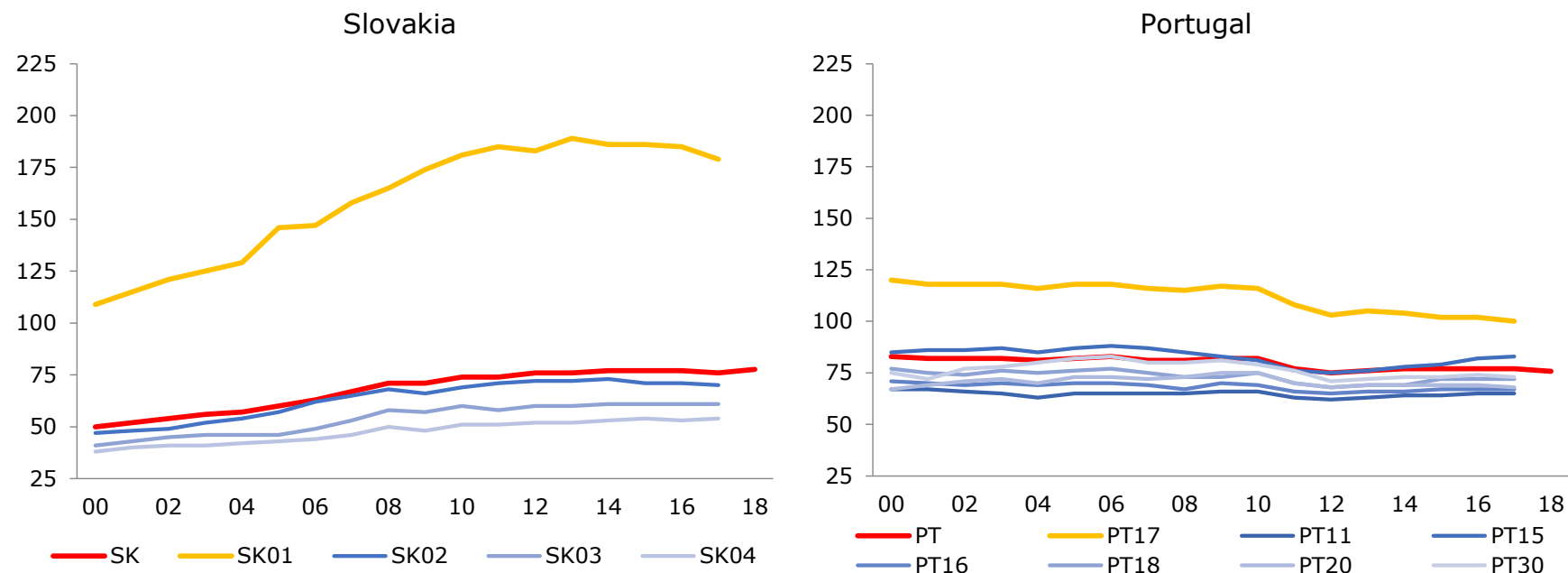


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Beta-convergence

Table 1: Beta-convergence of real GDP per capita at the regional level

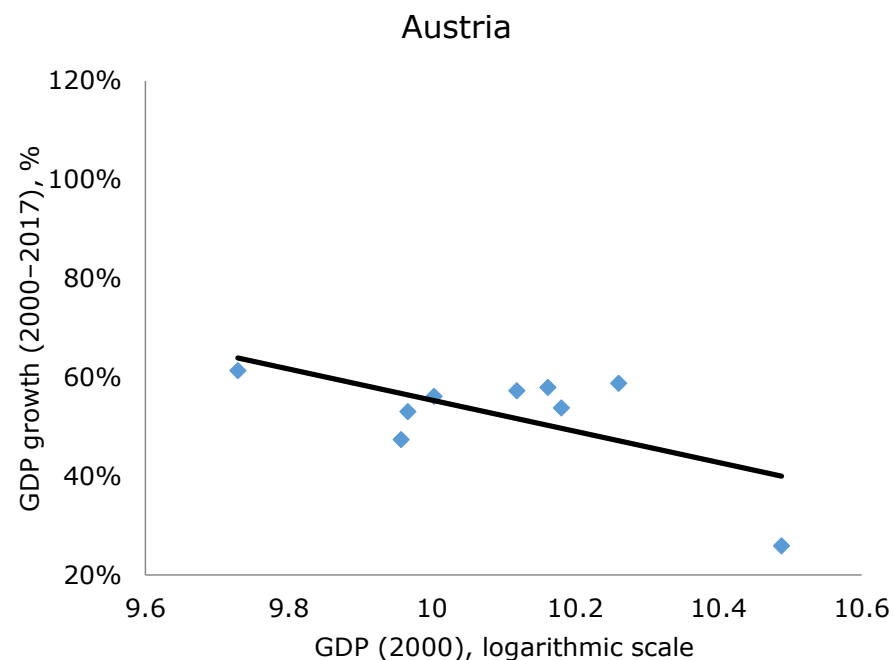
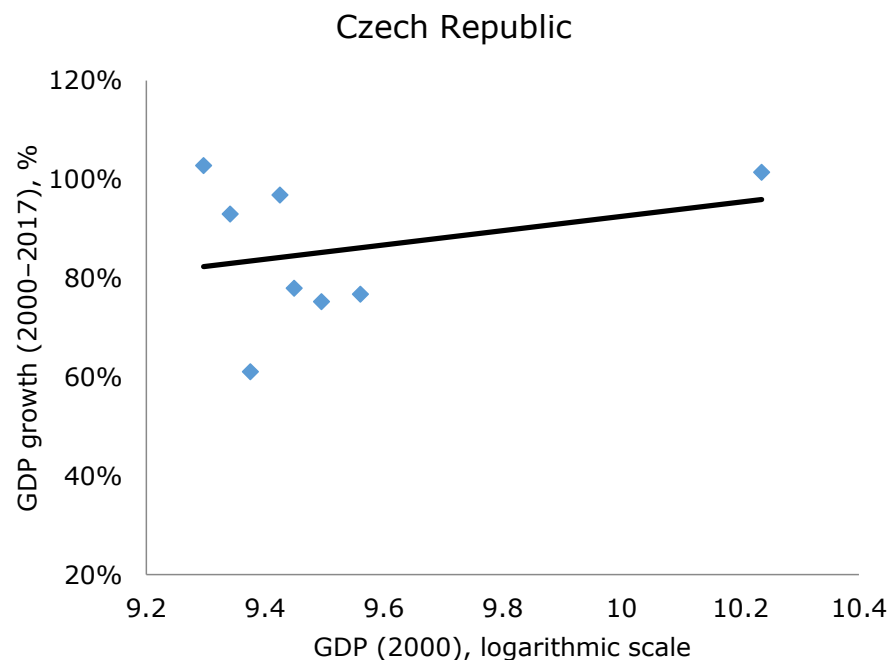
	2000–2008	2009–2017	2000–2017	Nobs.
CZ	0.18	-0.03	0.12	8
HU	0.13	-0.12	0.04	8
SK	0.18 *	-0.06	0.28 ***	4
CZ, HU, SK	0.10	0.16	0.05	20
AT	-0.06	-0.16 *	-0.29 *	9
DE	-0.12 ***	-0.10 **	-0.30 ***	38
PT	-0.12	-0.23 ***	-0.38 ***	7
AT, DE, PT	-0.11 ***	-0.16 **	-0.17 ***	54
EU-6	-0.23 ***	-0.27 ***	-0.34 ***	74

Note: The table shows the values of the beta coefficient (slope of the curve) for the given period. Negative, significant values denote convergence. Newer members thus show an absence of beta-convergence in all periods. Nobs is the number of observations (regions). Level of statistical significance: ***(1%), **(5%), *(10%).

Source: Eurostat, CNB calculations.

Beta-convergence

Chart 2: Beta-convergence of real GDP per capita at the regional level (2000–2017)



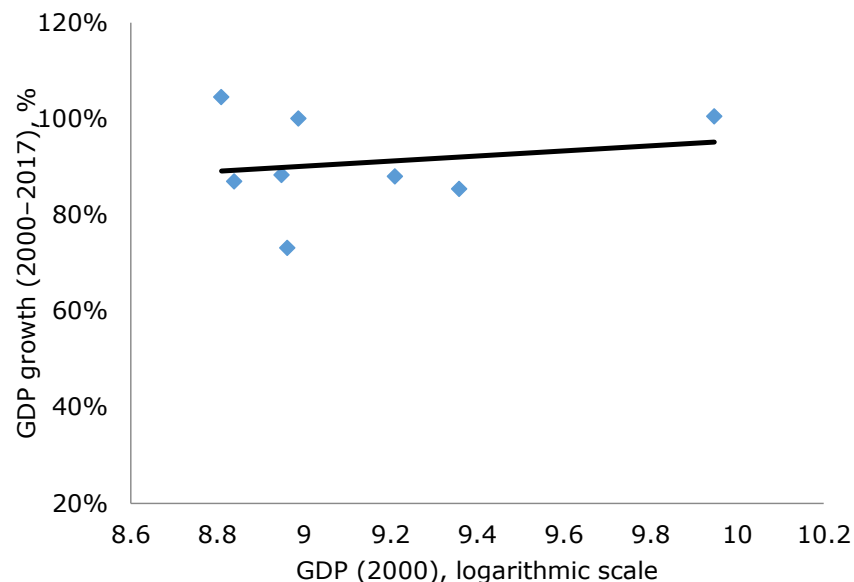
Note: The chart shows the relationship between growth in GDP per capita at purchasing power parity for NUTS 2 regions and its initial level.

Source: Eurostat, CNB calculations.

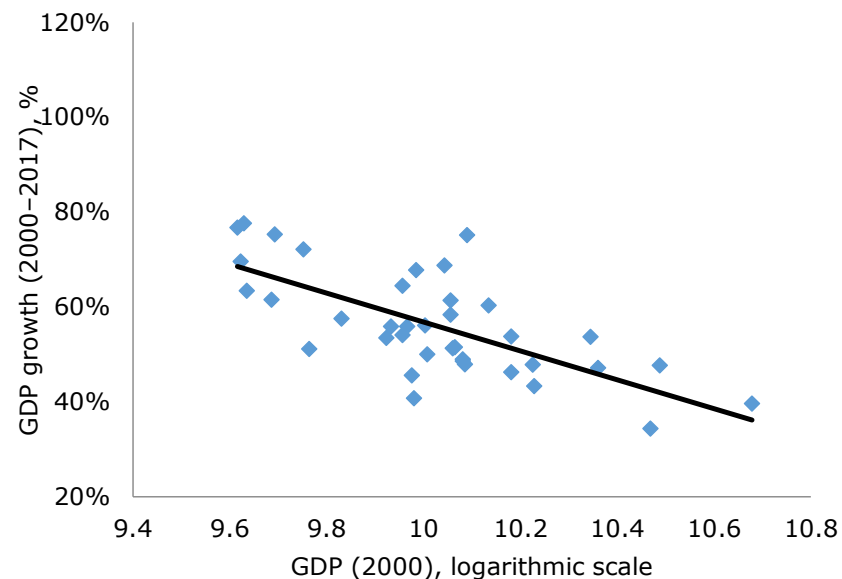
Beta-convergence

Chart 2: Beta-convergence of real GDP per capita at the regional level (2000–2017)

Hungary



Germany

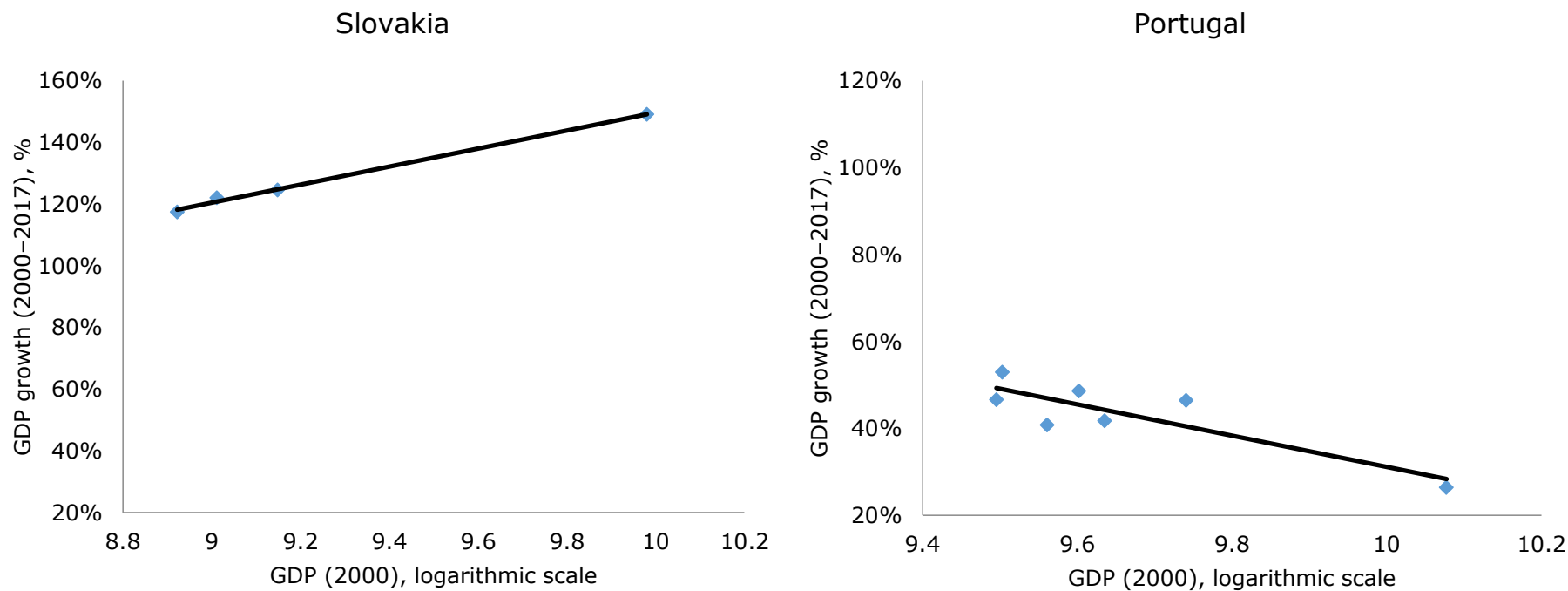


Note: The chart shows the relationship between growth in GDP per capita at purchasing power parity for NUTS 2 regions and its initial level.

Source: Eurostat, CNB calculations.

Beta-convergence

Chart 2: Beta-convergence of real GDP per capita at the regional level (2000–2017)

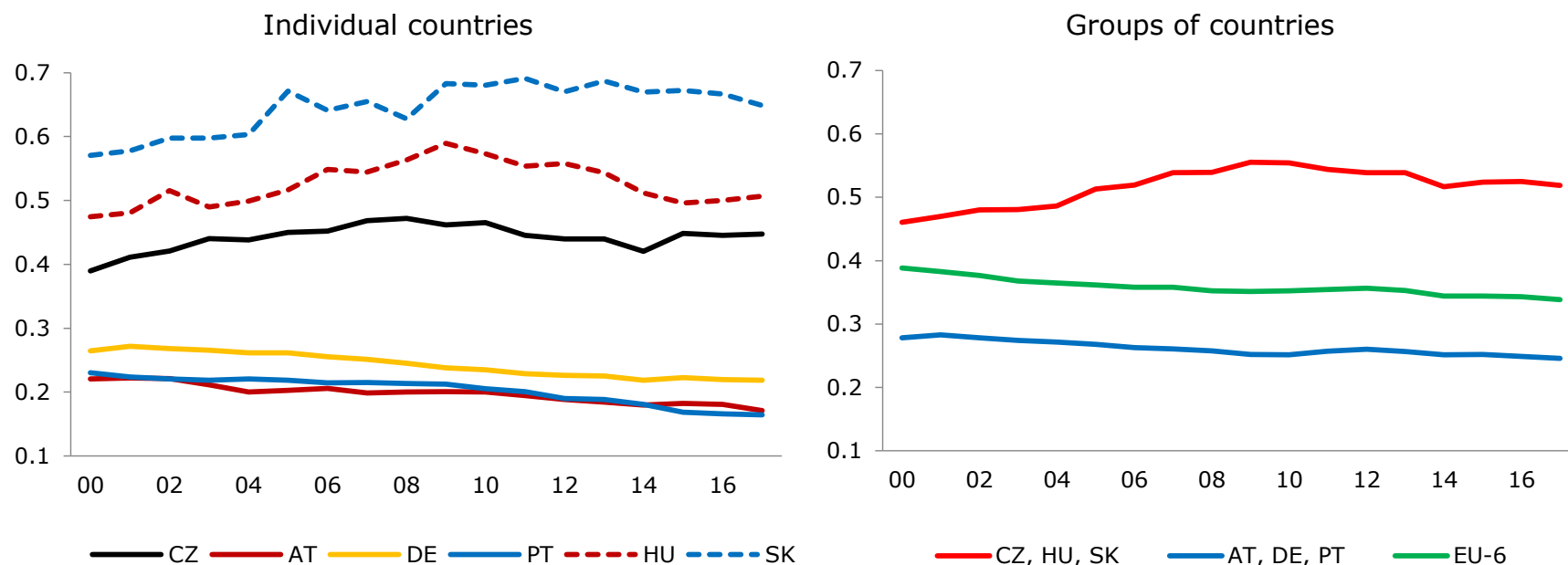


Note: The chart shows the relationship between growth in GDP per capita at purchasing power parity for NUTS 2 regions and its initial level.

Source: Eurostat, CNB calculations.

Sigma convergence

Chart 3: Sigma-convergence of real GDP per capita at the regional level



Note: The chart shows the evolution of the sigma coefficient (the standard deviation of regional GDP per capita at purchasing power parity relative to the average for the given country or group of countries) over time at the level of NUTS 2 regions. Lower values denote a higher degree of convergence.

Source: Eurostat, CNB calculations.

Appendix

Objectives of regional policy

■ Financial perspective 2000-2006

- Objective 1: Supporting development and structural adaptation of less developed areas
- Objective 2: Revitalisation of regions suffering from structural problems (coal-mining, steel production, fisheries, depressed urban and rural areas)
- Objective 3: improvement of human resources by active employment policies, social inclusion, life-long education, equal opportunities for men and women

■ Financial Perspective 2007–2013

- Objective 1 – Convergence (accelerating economic convergence, investment in physical and human resources, support for knowledge economy, enhancing capacity to adjust to economic and social changes, protection of environment)
- Objective 2 – Regional competitiveness and employment (increasing employment in regions with highest unemployment rate and less efficient labour markets)
- Objective 3 – European regional cooperation (supporting joint programmes of cross-border cooperation)

■ Financial Perspective 2014-2020

- Stronger focus on results: clearer and measurable targets for better accountability.
- Simplification: one set of rules for five Funds.
- Conditions: introduction of specific preconditions before funds can be channelled.
- Strengthened urban dimension and fight for social inclusion: a minimum amount of ERDF earmarked for integrated projects in cities and of ESF to support marginalised communities.
- Link to economic reform: the Commission may suspend funding for a Member State which does not comply with EU economic rules.
- Cohesion Policy has set **11 thematic objectives** supporting growth for the period 2014-2020.
- **Investment from the ERDF** (European Regional Development Fund) will support all 11 objectives, but **1-4 are the main priorities** for investment.

■ Financial Perspective 2014-2020

- **Main priorities for the ESF** are 8-11, though the Fund also supports 1-4.
- The **Cohesion Fund** supports objectives 4-7 and 11.
 - ✓ 1. Strengthening research, technological development and innovation
 - ✓ 2. Enhancing access to, and use and quality of, information and communication technologies
 - ✓ 3. Enhancing the competitiveness of SMEs
 - ✓ 4. Supporting the shift towards a low-carbon economy
 - ✓ 5. Promoting climate change adaptation, risk prevention and management
 - ✓ 6. Preserving and protecting the environment and promoting resource efficiency
 - ✓ 7. Promoting sustainable transport and improving network infrastructures
 - ✓ 8. Promoting sustainable and quality employment and supporting labour mobility
 - ✓ 9. Promoting social inclusion, combating poverty and any discrimination
 - ✓ 10. Investing in education, training and lifelong learning
 - ✓ 11. Improving the efficiency of public administration

Open design issues of EU regional policy

■ **Difficult assessment of effectiveness of regional measures**

- Impact of programmes can only be assessed in the long run
- Difficult separation of RP from other factors with regional impact
- Difficult separation of impacts of national and EU policies
- Leakages of regional assistance through imports

■ **„Just retour“ mentality in net-paying MS**

- MS should more or less get out from EU budget what they put in (contrary to the cohesion principle)
- Calls for re-nationalization of regional policy (elimination of pumping round of money via Brussels, MS themselves can better deal with specific needs of their regions)
- Advantages of EU arrangements: strict procedures and tight controls protect against politicization, longer-term programs bring more certainty to regional assistance

■ **Absorption capacity in receiving MS**

- Ability to come up with solid and well-elaborated projects eligible for EU funding, institutions capable to handle all stages of project management (implementation errors, lax control mechanisms, fraud, corruption)
- Cohesion funding is subject to national co-financing that may create tensions with fiscal consolidation