

EU Region Policy

Edited by **Tatjana Muravska**

Author: **Jānis Aprans**

University of Latvia Press

EU Region Policy

Author: Jānis Aprans

Riga, University of Latvia Press, 2014, 59 p., il.

Editor **Tatjana Muravska**

The publication of this teaching material was supported by:

European Commission Lifelong Learning Programme, Jean Monnet Programme



Layout **Andra Liepiņa**

Proof reader **Denīze Ponomarjova**

- © European Commission
Lifelong Learning Programme,
Jean Monnet programme
- © University of Latvia, 2014

Contents

Introduction	4
Lecture 1:	
The concept of region and regional policy	5
Self- evaluation of Lecture 1	19
Lecture 2:	
EU Regional policy, its principles and perspective development	21
Self- evaluation of Lecture 2	41
Lecture 3:	
Regional and Social policy in the European countries	42
Self- evaluation of Lecture 3	53
Lecture 4:	
Evaluation as tool for analysis of EU Regional policy implementation	54
Self- evaluation of Lecture 4	64

Introduction

The course „Regional policy in European countries“ aims to provide analysis of regional policy implementation at the level of individual Member States and European Union. This goal sets up the task to feature not only the present of the Union's regional policy, but also to outline the potential for its development. The course content examines regional policy regulatory documents, implementation of regional development strategies and evaluation of the results by using modern regional development concepts, approaches and methods.

Broadly defined, regional economic policy or regional planning includes all forms of public interventions for geographical placement of economic activity. Regional policy attempts to make corrections in free market economy for attainment of two interrelated objectives: economic growth and improved social distribution. The course is structured so that it covers all the above mentioned basic components of regional policy.

The first lecture provides insight into historical development regional policy, its theoretical foundations, principal models and contemporary theories, thus providing background necessary for perception and analysis of the regional policy in individual EU Member states and at the level European Union's Cohesion policy.

The second lecture is devoted to European Union's Cohesion policy starting with its historical development dating back to Treaty of Rome. Following the 1988 reform, further historic overview is focused on specifics of Cohesion policy implementation in each of the EU budget planning periods until 2013.

Further the current 2014-20 planning period is scrutinized reflecting basic principles of Cohesion policy, policy framework, available budget, three main funds – European Regional Development Funds (ERDF), European Social Fund (ESF) and Cohesion Fund (CF), the main sectors of Cohesion policy interventions and their relation to EUROPE 2020 targets as well as new approach to administration of Cohesion policy assistance.

As NUTS 2 level regions are the basic level for planning EU Cohesion policy interventions, separate part of the lecture informs about principles, classification and existing population thresholds of NUTS (*Nomenclature des unites territoriales statistiques*) system.

The third lecture is dedicated to analysis of Latvian National regional development since regaining independence in 1991, and forming national regional policy as well as its interaction with priorities and aims of the EU Cohesion policy. The analysis involves reflection of regional disparities in GDP at NUTS 3 level regions and so called planning regions, review of hierarchy and interrelation between various strategic and legal acts, administrative territorial reform, financial equalisation system.

The last 4th lecture examines the opportunities to assess efficiency of regional policy implementation by applying methods and techniques of policy evaluation. Evolution of policy evaluation practice in general and of EU Cohesion policy in particular is covered during the lecture. Also, the three constituent components of what is defined as “evaluation framework” – legal provisions, institutional arrangements and available expertise in area of policy evaluation are characterized along with most widespread methods and conclusions of recent evaluation studies.

Lecture 1: The concept of region and regional policy

Apart from few definitions of what is “a region” and “a regional policy” in the introduction of the first lecture, classifications of regions into normative and analytic, but regional policy into explicit and implicit, macro and micro is explained as well as basics of theoretical foundations, methods and resources for Regional policy are outlined in the further course of the lecture.

Regional policy has at least twofold theoretical foundations – theories on international trade and economic integration and theories on spatial location of economic activity. Formation of macro level regions or trade blocks as a result of growing economic integration fuelled by free trade can be explained from the point of view of international trade and economic integration.

In this regard, already classical economists such as Adam Smith (1723 - 1790) had argued in favour of positive effects stemming from the international free trade describing the concept of absolute advantage in his book „An Inquiry into the Nature and Causes of the Wealth of Nations” (1776), thus providing incentives for trade and consequently - economic integration.

Inspired by Smith, David Ricardo (1772 – 1823) further developed the concept, in his book “On the Principles of Political Economy and Taxation” (1817) suggesting that countries shall specialise in industries, where they have comparative advantage and exchange the surpluses through the trade with other countries.

The theories of absolute and comparative advantage are further developed by later and contemporary theories on international trade and economic integration - factor proportions trade, International product cycle, New trade theory, National competitive advantage and others. But as these theories are presented in depth as part of the other courses within European master’s study programme, they are only briefly presented during this course.

In explaining the differences in socio economic development of regions more attention is paid to another theoretical source related to theories attempting to explain spatial location of economic activity. First of theories that shall be mentioned in this context is Johan Heinrich von Thünen’s (1738 - 1850) “location rent” theory laid out in his work “Der Isolierte Staat” (1826), where he has developed concept of “location rent” based on zoning of agricultural land usage depending on the proximity to market.

Alfred Weber (1868 – 1958) contribute to rise of regional science by formulating a least cost theory of industrial location based on the earlier work of Carl Wilhelm Friedrich Launhardt (1832 – 1918). The core essence of his theory can be formulated into two theses: first - industries whose final products weigh more than their constituent parts will tend to be located closer to the market, and second - industries whose final products weigh less than their constituent parts, will tend to be located closer to sources of raw materials.

Walter Christaller (1893 – 1969) introduced the concept of central place defined by hexagonal pattern based on top-down approach. His theory was aimed at finding more efficient organization of regions in connection with central places within these regions, concentrating on the maximum distance acceptable for residents for buying goods and (or) receiving services and on the smallest possible market.

August Lösch (1906 – 1945) used the bottom up approach to Christaller’s model. Lösch further developed a theory of central place by pointing out that it was unnecessary to implement all functions at the highest level. He supplied mathematical proof for usefulness of system with several central places.

William Alonso (1933 – 1999) applied von Thünen to city development - economic interests connected with Central Business District. He is author of the book „Location and Land Use” (1964), where he explains his “bid rent theory” determining the location of various types of business activity depending on the proximity to Central Business District.

Speaking about the contemporary regional development theories and concepts, during the lecture particular attention is paid to comparatively recent concept of „place based approach” emerged as result preparations for Cohesion policy reform undertaken by European Commission through initiation of process for elaboration of “An agenda for a reformed Cohesion policy” (2009) by group of academics and practitioners led by professor Fabrizio Barca, eventually known as “Barca report”.

In the final part, insight in traditional methods and tools of Regional policy such as differentiated tax regimes in the regions, state issued loans, guarantees, subsidies and grants to economic operators and investment incentives is provided. However, this information is complemented with stressed commentary that many of these tools are not compliant or can contradict state aid and regional aid rules, therefore their application in EU Member States is limited.

Regional policy in the European countries

Jānis Aprāns
(janis.aprans@lu.lv)

University of Latvia
2014

1

The concept of region and regional policy

What is region?

“...to call a region any large part of the surface of the earth which is different from the surrounding territories by its physical and geographic characteristics or the character of human activity”

What is region? (II)

Geographic are characterized by internal homogeneity in terms of conditions of nature and mainly cultural, economical, and political processes.

Types of regions

- **Normative** regions
are established by legal acts for the implementation of certain functions with consideration of required resources and administration
- **Analytical** regions
Analytical regions are defined based on analytical requirements. They are classified according to geographical or socio-economic characteristics

Regional policy (I)

Regional policy is a set of agreed and organized measures for ensuring development across certain territory (traditionally – Nation state).

Regional policy (II)

Regional economic policy or regional planning includes all forms of public interventions for geographical placement of economic activity. Regional policy attempts to make corrections in free market economy for attainment of two interrelated objectives: **economic growth** and **improved social distribution**.

Stages of regional policy formulation and implementation

- Identification and definition of regional problems
- Identification of policy objectives (quantitative indicators suggested)
- Establishment of strategy
- Choice of means
- Policy assessment (evaluation)

Classification (I)

- Explicit Regional policy:
clearly formulated policy with focus on specific region(s)
- Implicit Regional policy:
Important decisions in the area of economics, formulated and implemented by state central and regional authorities in relation to their effect on regional policy.

Classification (II)

- Regional macro-policy;
 - Regional micro-policy;
 - Co-ordination mechanisms.
- (H. Armstrong and D. Taylor (1985)).

Regional macro-policy

- Various differentiating measures and means at regional level related to tax policy and revenue policy;
- Regionally differentiating measures and means pertaining no monetary policy;
- Regionally differentiating measures and means in the are of external trade, (for example, limitations in import).

Regional micro-policy

Regional micro policy is connected with changes in the spatial disposition of **labour resources** and **capital** – schemes of labour resources relocation, regulation of migration flows, migration subsidies and loans, housing and education programmes for migrants, training and raising of qualifications, licenses and certificates for construction of industrial objects, investment support, etc.

Co-ordination mechanisms

Co-ordination mechanisms ensure efficient interaction between regional micro-policy and macro-policy as well as co-ordinate regional policy implemented at different levels of authority and public administration.

A theoretical approach to regional integration

- Regional development models;
- Methods and resources of Regional development.

Regional development models

- Johan Heinrich von Thünen (1738 - 1850)
- Walter Christaller (1893 – 1969)
 - theory of central place defined by hexagonal pattern based on top-down approach
- August Lösch (1906 – 1945)
 - bottom up approach modeled of Christaller's model
- William Alonso (1933 – 1999)
 - *Location and Land Use* (1964)
 - Applied von Thünen to city development - economic interests connected with Central Business District

Von Thünen - *Der Isolierte Staat*

Assumptions:

- The city is located centrally within an "Isolated State."
- Homogeneous in soil, climate, etc.
- Region is served by one single market (central place)
- Farmers act rationally and will allocate land to maximize profits
- Transportation costs are:
 - ✓ Linear and proportional to distance covered in all directions
 - ✓ May vary for different commodities

Von Thünen – definitions (I)

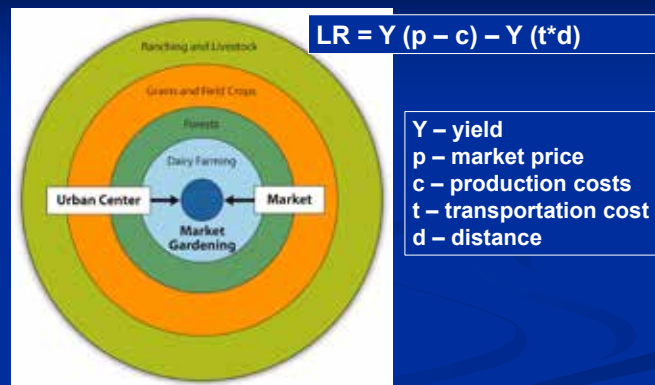
Economic rent (ER):

$$ER = p - c$$

Producer's surplus after covering all costs of production.

- ✓ Economic term, not directly related to location.

Von Thünen model



Source: Dr. Royal Berglee, "World Regional Geography: People, Places and Globalization"

Location Rent

- LR is "economic rent" that may be earned *due to location of land*.
- Thus LR is explicitly spatial concept
- Different land uses earn different rent
- Rent depends on location relative to market as transport costs depend on the distance

Alfred Weber's theory of industrial location - assumptions

- Cost of transportation determined by the weight of goods and distance to market.
- Industries are competitive
- Markets are in fixed locations.
- Labor exists in only certain places and is not mobile.
- Physical geography and political-cultural landscape are uniform across model's landscape.

Alfred Weber's theory of industrial location - conclusions

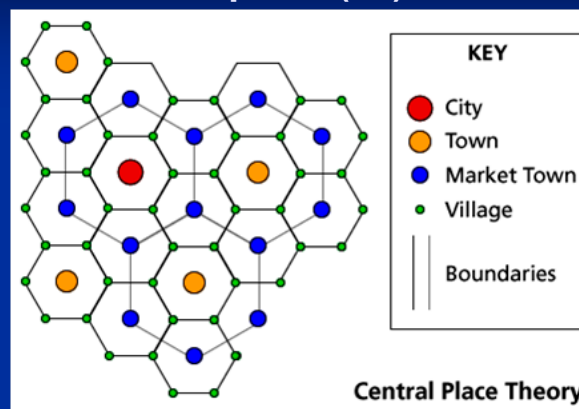
- Industries whose final products weigh more than their constituent parts, will tend to be located closer to the market.
- Industries whose final products weigh less than their constituent parts, will tend to be located closer to sources of raw materials.

Walter Christaller's theory of central place

Walter Christaller's theory for more efficient organization of regions in connection with central places:

- ✓ Maximum distance acceptable for residents for buying goods and (or) receiving services;
- ✓ On the smallest possible market.

Walter Christaller's theory of central place (II)



Source: <http://cgu4u-models-in-human-geography2010.wikispaces.com/>

Revised theory of central place

August Lösch

- Further developed a theory of central place by pointing out that it was unnecessary to implement all functions on highest level.
- He supplied mathematical proof for usefulness of system with several central places.

Bid rent theory

Walter Alonso applied **von Thünen's** theory to city development and improved it (1960s): economic interests are connected with centre and allowing set the price of land.

Latest theories

- Contemporary theories of regional development are associated with notions of “learning”, “knowledge”, “innovation”, “intelligent regions”.
- The theories are related to socioeconomics and are affected by culture and theoretical concepts of the space (the place).

Place based approach (I)

■ “Barca report”:

http://ec.europa.eu/regional_policy/archive/policy/future/barca_en.htm

Place based approach (II)

CV Fabrizio Barca

Fabrizio Barca is a Director-General at the Italian Ministry of Economy and Finance.

He has previously been working at the Bank of Italy as Division Chief at the Research Department, as Chief of the Department of Development Policies at the Italian Treasury and has been President of the OECD Territorial Policies Committee.

He graduated from Rome University and took an MPhil. degree at the University of Cambridge (1978-80), as well as pursuing research activity at MIT (1989-90) and Stanford University (1994).

He has taught economic development, corporate finance and Italian economic history at the Universities of Bocconi, Modena, Paris (SPO), Siena, Rome and Parma.

His works include papers and books on the theory of the firm, evidence on SMEs, corporate governance, the history of Italian capitalism and regional policy.

In April 2009, he wrote the independent report for the European Commission "An Agenda for a reformed cohesion policy".

Method of Report

Launching a wide survey of different views:

- 40 academics through 3 Hearings, 1 Workshop, 10 Working Papers
 - 40 policy-makers of Member States and Regions through 5 Seminars
 - 40 Commission officials through 15 months of work
 - a review of more than 200 articles and documents
- Examining conceptual, political and operational aspects

THE “NEW PARADIGM OF REGIONAL POLICY” OR PLACE-BASED POLICY

Objectives

- reducing persistent underutilization of potential (inefficiency)
- reducing persistent social exclusion

Unit of intervention

- places or functional regions, set through the policy process

THE “NEW PARADIGM OF REGIONAL POLICY” OR PLACE-BASED POLICY (II)

Rationale - market and government failures:

- appropriate institutions fail to be chosen by the local elite
- institutions have a strong inertia
- high uncertainty on efficient agglomeration patterns calls for verifiable public action

THE “NEW PARADIGM OF REGIONAL POLICY” OR PLACE-BASED POLICY (III)

Instruments

- supply of bundles of integrated public goods and services
- triggering institutional change

Method

- external intervention through conditional grants
- eliciting and aggregating local information and preferences

Methods and resources of Regional development

Three main methods:

- Administrative methods;
- Economic methods;
- Socio-psychological methods.

Regional development tools (I)

- Subsidies and loans from the State and intergovernmental organizations;
- Location of new and existing State owned companies and State institutions in the problem regions;
- National grants and loans to local authorities;
- Financing and loans for private companies from public resources;

Regional development tools (II)

- Advantages in receiving public Contracts for the companies in depressive regions;
- Loan guarantees;
- Tax policy applied to separate territories;
- Establishment of free and special economic zones;
- Appointment of regionally different depreciation rates;

Regional development tools (III)

- Preparation of territory for investment needs;
- Aid to development of innovation activity in problem regions
- Support to business in employee trainings;
- Establishment of business consultations centers;
- Investment bonuses for investment into production facilities, machinery and equipment.

QUESTIONS?

37

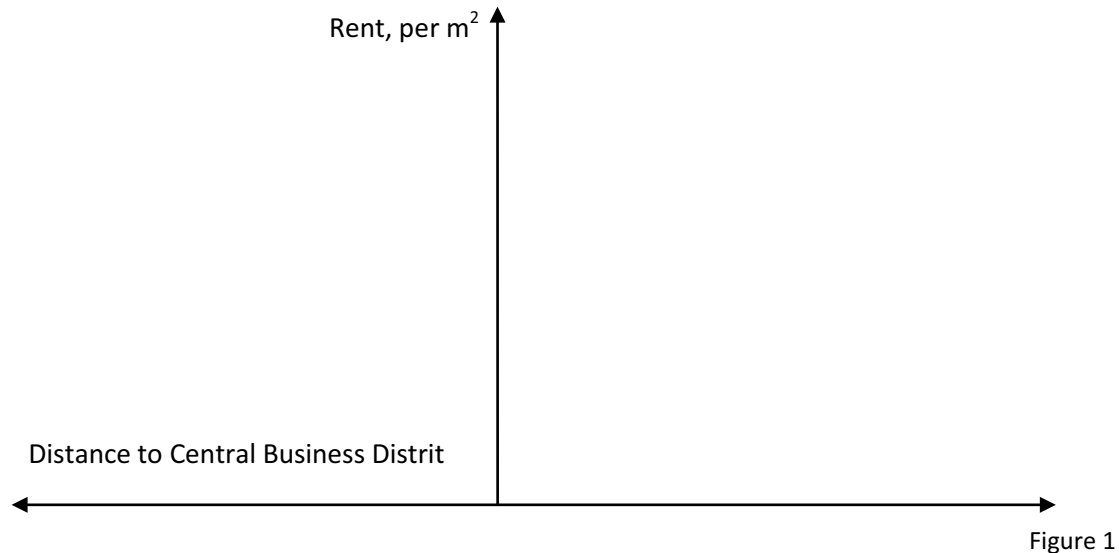
**Thank you for the
attention!**

38

Self- evaluation of Lecture 1

The concept of region and regional policy

1.



In the above Figure 1, please, show the consequences of land use (zoning) according to William Alonso's bid rent theory. Please, also show in the figure, in which zone you expected the watch shop of Switzerland based producers would be located, and where the apartment houses would be located. Please, provide brief text explanation bellow!

2. Was Johan Heinrich von Thünen author of (please, choose the correct answer(s)):

- ☐ Theory of comparative advantage
- ☐ Concept of „location rent“
- ☐ Place based „approach“

3. Which of the bellow statement(s) are part of main findings on Alfred Weber's theory (please, mark the correct answer(s)):

- ☐ Industries whose final products weigh more than their constituent parts, will tend to be located closer to the market
- ☐ Industries whose final products weigh less than their constituent parts, will tend to be located closer to sources of raw materials
- ☐ it is unnecessary to implement all functions on highest level (central place)
- ☐ there is maximum distance acceptable for residents for buying goods and (or) receiving services

4. How would you define what is a „region“? What kind of regions (clasifications) do you know?

Reading:

1. Balassa B., The theory of economic integration, Irwin, Homewood, Illinois: 1961.
2. Barca F., An Agenda for a reformed Cohesion policy - a place-based approach to meeting European Union challenges and expectations, 2009 – 244 lpp.
3. Ketels, M. H. Christian, PhD Hilmola Olli-Pekka, Weber Ryan, State of the Region Report, Copenhagen: 2012 – 158 lpp.
4. Molle W., “The economics of European Integration”, 5th edition, Ashgate, 2006 – 446. lpp.
5. The North American Regional Science Council’s (NARSC) web page - <http://www.narsc.org/>.
6. UK Regional studies associations web page - <http://www.regionalstudies.org/>.
7. Vaidere I. [et al.] ,Regional policy and development of local government in Latvia and the European Union / pp. 23–32; Rīga: LU Akadēmiskais apgāds 2008.

Lecture 2: EU Regional policy, its principles and perspective development

Since the Rome Treaty of 1957, one of the main tasks of the Community has been to promote an 'harmonious development of economic activities. The need for a coordinated community solution to regional disparities and correction of regional imbalances has been also recognised by Commission.

In 1988, the European Council in Brussels decided to adopt the first regulation integrating the Structural Funds under the umbrella of Cohesion Policy. Reform introduced key principles applied up to date. Such as focussing on the poorest and most backward regions, multi-annual programming, strategic orientation of investments and the involvement of regional and local partners.

With establishment of multiannual programming, the planning process of EU Cohesion policy is closely connected with the EU budget planning periods. Five such planning periods can be distinguished so far: 1989 – 93, 1994 – 1999, 2000 – 06, 2007 – 13, 2014 – 20. Each of the periods has had its characteristic features in terms planning, setting objectives and shaping implementation framework.

In 1989 – 93, integration of the structural funds under five common objectives took place, the rules for administration was larger extent standardised than previously, although still remaining largely diverse, if compared with current level of harmonisation. The management of funds was decentralised – programmes were implemented not by the Commission services, but by administrations of Member States and annual the structural funds' budget was increased up to 14 billion, which represented about 20% of EU budget.

Quite substantial changes in the design of Cohesion policy took place in period 1994 – 99 following the adoption of Maastricht Treaty. A number of new policy areas - trans-European networks, industrial policy, consumer protection, education and vocational training, youth, culture were addressed by Cohesion policy investment. Secondly, the Cohesion Fund was introduced as tool to assist least developed Member States in implementation requirements so called "investment heavy directives", while letting them being able to comply with requirements of Maastricht criteria. Finally, the the structural funds' budget increased up to 32 billion ECU per year, representing about 30% of EU total budget.

The period 2000 – 06 is largely associated with preparations for enlargement and entry of new Member states – significant recipients of EU Structural funds. But it was also characteristic with changes in implementation framework. The number of Cohesion policy objectives was decreased from earlier six to three. The new instrument - pre-accession instruments for candidates (ISPA) was established to help candidate countries comply with requirements of *acquis* in the fields of transport and environment. The budget for structural funds' was increased up to 38 bn Euro per year, representing about 33% of the EU budget.

The period 2007 – 13 was characteristic with the highest proportion of EU budget being allocated to Cohesion policy – about Euro 50 billion per annum or around 36% of the EU budget. The policy objectives were limited to three with their share in total allocation given

in brackets: Convergence objective (81.5%), Regional Competitiveness and Employment objective (16%), European Territorial Co-operation objective (2.5%).

So far the latest Cohesion policy reform was experienced in relation to planning Cohesion policy interventions for period 2014 – 20. One of the reasons for changes in the policy framework in 2014 – 2020 was to deliver objectives of Europe 2020 strategy for smart, sustainable and inclusive growth. Thus the Cohesion policy objectives have been aligned with Europe 2020 objectives. The policy share in EU total budget in period 2014 – 20 has decreased to about 34% or approximately 46 billion euro a year.

To explain intervention logic and planning process of Cohesion policy, part of the lecture is devoted to reflection of NUTS classification of regions as well as to overview of general policy planning principles and its three main instruments – European Regional Development Fund (ERDF), European Social Funds (ESF) and Cohesion Fund (CF).

Regional policy in the European countries

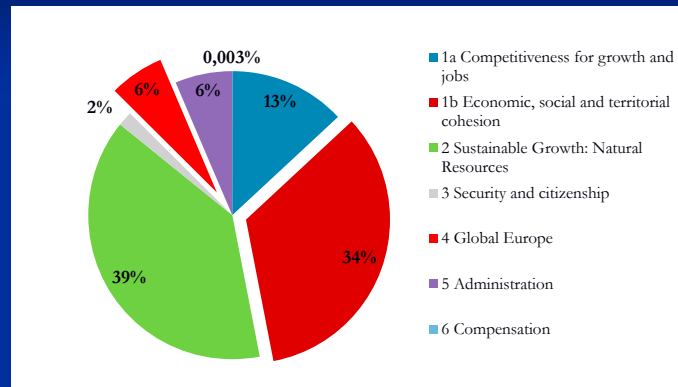
Jānis Aprāns,

University of Latvia,
2014

1

EU Cohesion policy, its principles and perspective development

EU Multiannual Financial Framework 2014–20



University of Latvia

3

Road to EU Cohesion policy

- Community policies addressing regional imbalances can be traced back to the Treaty of Rome,
- 1975 - the European Regional Development Fund was created.
- Beginning of the 1980s “efficiency” of Community instruments became an issue and their integration was sought for in a number of pilot programmes.
- In 1986 ‘European’ Cohesion Policy, most notably the Single European Act, the accession of Greece, Spain and Portugal and the adoption of the single market programme.
- 1988, the European Council in Brussels decided to allocate Council adopted the first regulation integrating the Structural Funds under the umbrella of Cohesion Policy.
- Reform introduced key principles such as focussing on the poorest and most backward regions, multi-annual programming, strategic orientation of investments and the involvement of regional and local partners.

4

1989 - 1993

- Integration of the structural funds
- 5 common objectives
- Standardised administration rules
- Decentralised management
- Increase of the structural funds' budget up to 14 bn ECU p.a. (ca. 20% of EU-Budget)

5

1989 – 1993: Objectives

- **Objective 1:** promoting the development and structural adjustment of regions whose development is lagging behind;
- **Objective 2:** converting regions seriously affected by industrial decline;
- **Objective 3:** combating long-term unemployment;
- **Objective 4:** facilitating the occupational integration of young people;
- **Objective 5:** (a) speeding up the adjustment of agricultural structures and (b) promoting the development of rural areas.

6

1994 - 1999

- Introduction of a new objective 4
- Simplification of procedures
- New: Cohesion Fund and fisheries instruments
- Increase of the structural funds' budget up to 32 bn ECU p.a. (ca. 30% of EU budget)

7

“Maastricht criteria”

The five convergence criteria

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without serious disruptions

Source: http://ec.europa.eu/economy_finance/euro/adoption/who_can_join/index_en.htm

8

New policies

- trans-European networks;
- industrial policy;
- consumer protection;
- education and vocational training;
- youth;
- culture.

9

“Investment heavy” Directives

Water sector:

- The Drinking Water Directive (80/778/EEC, as amended by 98/83/EC)
- The EIA Directive (85/337/EEC)
- The Urban Wastewater Directive (91/271/EEC)
- The Plant Protection Products Directive (91/414/EEC)
- The Nitrates Directive (91/676/EEC)
- The Habitats Directive (92/43/EEC)

Waste sector

- The Packaging Waste Directive 94/62/EC
- The Sewage Sludge Directive 86/278/EEC
- The Hazardous Waste Directive 91/689/EEC
- The Batteries Directive 91/157/EEC

10

1994 – 1999: Objectives (I)

- **Objective 1: promoting the development** and structural adjustment of regions whose development is lagging behind;
- **Objective 2: converting regions or parts of regions** seriously affected by industrial decline;
- **Objective 3: combating long-term unemployment** and facilitating the integration into working life of young people and of persons exposed to exclusion from the labour market, promotion of equal employment opportunities for men and women;
- **Objective 4: facilitating adaptation of workers to industrial changes and to changes in production systems;**

11

1994 – 1999: Objectives (II)

- **Objective 5: promoting rural development by**
 - ✓ (a) speeding up the adjustment of agricultural structures in the framework of reform of CAP and promoting the modernisation and structural adjustment of the fisheries sector;
 - ✓ (b) facilitating the development and structural adjustment of rural areas;
- **Objective 6: development and structural adjustment of regions with an extremely low population density (01/01/1995).**

12

2000 - 2006

- 40% to 49,9% of EU population (155→224 Mio.) in eligible areas (Obj. 1&2)
- phasing-out for some objective 1,2 and 5b regions
- 3 common objectives
- Introduction of pre-accession instruments for candidates (ISPA)
- Increase of the structural funds' budget up to 38 bn Euro p.a. (ca. 33% of EU budget)

13

2000 – 2006: Objectives

- **Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind;**
- **Objective 2: supporting the economic and social conversion of areas facing structural difficulties, hereinafter;**
- **Objective 3: supporting the adaptation and modernisation of policies and systems of education, training and employment.**

14

Results 2000 - 2006

- ✓ 8400 km of rail built or improved
- ✓ 5100 km of road built or improved
- ✓ Access to clean drinking water for 20 million more people ensured
- ✓ Training for 10 million people provided each year
- ✓ Over 1 million jobs created

Objectives for Cohesion policy 2007-2013

- I. Convergence objective (81.5%)
- II. Regional Competitiveness and Employment objective (16%)
- III. European Territorial Co-operation objective (2.5%)

Total 2007 -2013: 347 billion €

16

Map: Objectives 1 and 2



Source: DG Regio

17

Map: Objective III



Source: DG Regio

18

Reason for changes in the policy framework in 2014 - 2020

- Deliver the Europe 2020 strategy objectives of smart, sustainable and inclusive growth;
- Focus on results;
- Maximise the impact of EU funding.

Proposed budget for 2014-2020

“Ambitious but realistic” proposals issued by the Commission in June 2011 for the Multiannual Financial Framework (MFF) 2014-2020: 958 988 MEUR in 2011 prices

Other policies
(agriculture, research, external etc.)
66,1 %
(634,8 bn €)



Cohesion Policy
33,9 %
(325,1 bn €)

Coherence



- Comprehensive investment strategy: aligned with Europe 2020 objectives
- Coherence with National Reform Programmes
- Coordination: cohesion policy, rural development, maritime & fisheries funds
- Objectives and indicators to measure progress towards Europe 2020 targets
- Effectiveness: introduction of a performance framework
- Efficiency: reinforcement of administrative capacity

The 5 targets for the EU in 2020

1. Employment

- 75% of the 20-64 year-olds to be employed

2. R&D / innovation

- 3% of the EU's GDP (public and private combined) to be invested in R&D/innovation

3. Climate change / energy

- greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990
- 20% of energy from renewables
- 20% increase in energy efficiency

4. Education

- Reducing school drop-out rates below 10%
- at least 40% of 30-34-year-olds completing third level education

5. Poverty / social exclusion

- at least 20 million fewer people in or at risk of poverty and social exclusion

Performance and effectiveness

Focus on results

- Common & programme-specific indicators, reporting, monitoring & evaluation

Performance framework for all programmes

- Clear and measurable milestones and targets

Performance reserve

- 5 % of national allocations (by Member State, fund and category of region)

Ex-ante conditionality

- Ensuring conditions for effective investment are in place

Macro-economic conditionality

- Alignment with new economic governance

Thematic objectives

1. Research & innovation
2. Information and communication technologies (ICT)
3. Competitiveness of Small and Medium-sized Enterprises (SMEs)
4. Shift towards a low-carbon economy
5. Climate change adaptation & risk prevention and management
6. Environmental protection & resource efficiency
7. Sustainable transport & removing bottlenecks in key network infrastructures
8. Employment & supporting labour mobility
9. Social inclusion & combating poverty
10. Education, skills & lifelong learning
11. Institutional capacity building & efficient public administrations

Focus of European Regional Development Fund in 2014 - 2020

- Energy efficiency and renewable energy;
- Research and innovation
- Competitiveness of SMEs

European Social Fund

Fully in line with the Europe 2020 strategy

- Promoting employment & supporting labour mobility
- Investing in education, skills & life-long learning
- Promoting social inclusion & combating poverty
- Enhancing institutional capacity & efficient public administration

Reinforced social dimension

- 20 % of ESF allocations for social inclusion
- Greater emphasis on fighting youth unemployment
- Mainstreaming & specific support for gender equality & non-discrimination

Cohesion Fund

Supports Member States with GNI/capita < 90 % of EU27 average

Investing in environment

- Climate change adaptation and risk prevention
- Water and waste sectors
- Biodiversity including through green infrastructures
- Urban environment
- Low carbon economy

Investing in transport

- Trans-European Transport Networks (TEN-T)
- Low-carbon transport systems and urban transport

Simplification

Common rules - funds covered by Common Strategic Framework

- Cohesion Policy, rural development and maritime & fisheries policy

Option of multi-fund programmes

- ERDF, ESF and Cohesion Fund

Streamlined delivery system

- Harmonised rules on eligibility and durability
- Greater use of simplified costs
- Linking payments with results
- e-Cohesion: “one stop shop” for beneficiaries
- Proportional approach to control

Territorial Cohesion

Focus on sustainable urban development

- At least 5 % of ERDF resources

Creation of urban development platform

- Networking between cities and exchanges on urban policy

Innovative actions for sustainable urban development

- Subject to a ceiling of 0.2 % of the annual funding

Areas with specific natural or demographic features

- Additional allocation for outermost & sparsely populated regions

Financial instruments

Promoting the use of innovative financing instruments

- Extending scope to all areas of investment
- Clearer regulatory framework
- 10 % bonus for innovative financing instruments & community-led development
- A range of options offering flexibility to programme managers

Co-financing rates

Maximum co-financing rates

- 75-85 % in less developed and outermost regions
- 60 % in transition regions
- 50 % in more developed regions

Management and control

Financial management

- New system of annual accounts
- Annual management declaration
- Annual clearance of accounts by the Commission

Management and control systems

- National accreditation (greater responsibility for Member States)
- Managing Authorities may act as Certifying Authorities
- Commission can review accreditation (taking into account risks & track record)

Greater proportionality

- Exemptions for low volume programmes
- Exemptions for systems that have delivered consistently good results
- Limitations on frequency of Commission audits on individual operations

Territorial cooperation

- Separate regulation
- Increase of financial resources (initially was planned +30%)
- Concentration of programmes on up to 4 thematic objectives
- Simplified programme management (merger of managing and certifying authorities)

Eligibility of Regions



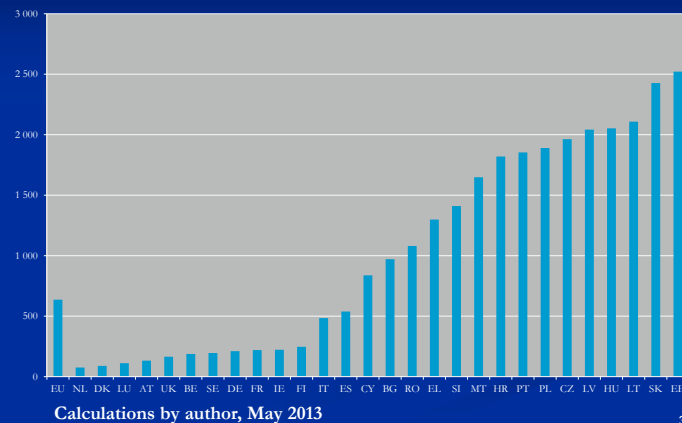
34

Provisional allocation of CP funding

Programme	TOTAL bnrs €	Share as %	TYPE OF INTERVENTION
Cohesion Fund	66 362	20,6%	Reducing economic and social shortfall, stabilising the economy of MS. GNI < 90 % of the EU avg.
Less developed regions	164 279	51,0%	Less developed regions, whose GDP < 75 % of the EU avg. Funding is made available through the the
Transition regions	32 085	10,0%	Those regions whose GDP is between 75 % and 90 % of the EU avg. Support from the ERDF&ESF.
Special allocation for outermost and sparsely populated regions	1 387	0,4%	Special allocation from the ERDF for outermost and sparsely populated regions.
More developed regions (Competitiveness)	40 271	15,3%	GDP is above 90 % of the EU avg. Funding is made available through the ERDF&ESF.
Territorial Cooperation	8 948	2,8%	The ETC helps regions across Europe to work together to address shared problems (ERDF).
Total	322 332	100%	

35

Cohesion policy per capita allocation in 2014 - 2020



36

Nomenclature of territorial units for statistics

- Regional policy of any scale focuses on territories.
- Systematization and classification of territories is essential for effective and impartial policy implementation.
- European Union has developed Nomenclature of territorial units for statistics (**NUTS**, *Nomenclature des unités territoriales statistiques* (fr.))

NUTS system

- Eurostat developed the NUTS system more than 25 years ago. Since 1988 this classification of territories has been used in the Community *acquis*.
- The current NUTS classification valid from 1 January 2012 until **31 December 2014** lists 97 regions at NUTS 1, 270 regions at NUTS 2 and 1294 regions at NUTS 3 level.

EU NUTS regions

The NUTS classification is a hierarchical system for dividing up the economic territory of the EU for the purpose of :

- The collection, development and harmonization of EU regional statistics.
- Socio-economic analyses of the regions.
 - NUTS 1: major socio-economic regions;
 - NUTS 2: basic regions for the application of regional policies;
 - NUTS 3: as small regions for specific diagnoses.

Principles of NUTS regions (I)

Principle 1: The NUTS regulation defines minimum and maximum population thresholds for the size of the NUTS regions:

LEVEL	MINIMUM	MAXIMUM
NUTS 1	3 million	7 million
NUTS 2	800 000	3 million
NUTS 3	150 000	800 000

Principles of NUTS

Principle 2: NUTS favours administrative divisions (normative criterion)

- For practical reasons the NUTS classification is based on the administrative divisions applied in the Member States that generally comprise two main regional levels. The additional third level is created by aggregating administrative units.

Principle 3: NUTS favours general geographical units

- General geographical units are normally more suitable for any given indicator than geographical units specific to certain fields of activity

NUTS 2 regions



EU Regional policy and NUTS regions

- Regions eligible for aid from the EU Structural Funds have been classified at the NUTS 2 level.
- Areas eligible under the other priority objectives have mainly been classified at the NUTS 3 level.
- The Cohesion report has so far mainly been prepared at the NUTS 2 level.

EU Regional policy (I)

- The purpose of EU regional policy is to reduce the significant **economic**, **social** and **territorial** disparities that still exist between Europe's regions.
- Leaving these disparities in place would undermine some of the cornerstones of the EU, including its large **single market** and its currency, the **euro**.

EU Regional policy (II)

- Regional policy is the expression of the EU's solidarity with its less-favoured countries and regions, working through integrated programmes to support the sustainable development of the regions and of the EU as a whole.
- Specifically, it is aimed to:
 - ✓ bring out the best of every region;
 - ✓ make all regions more competitive;
 - ✓ create more & better jobs.

Principles of EU Cohesion policy (I)

The European Cohesion policy and the implementation of the structural instruments are based on the following basic principles:

- 1) **Partnership principle** – Community action complement and support measures at the national level. The measures supported should result from close cooperation and consultations between the European Commission and the Member State. The central and regional authorities in the Member State and the socio-economic partners should be actively involved in the process.

Principles of EU Cohesion policy (II)

- 2) **Coordination** – the European commission and the member state ensure coordination and lack of duplication of financing available under the different financing instruments.
- 3) **De-centralisation** – in accordance with this principle competencies with regard to the implementation of the funds are transferred from the Commission to the member state;
- 4) **Complementarity** – EU funding should complement and not replace allocated national resources.

Cohesion policy financial instruments

- European Regional development fund
- European Social Fund
- Cohesion Fund

48

European Regional Development Fund (ERDF)

- The first enlargement (IRL, DK, UK) and the objective of an Economic and Monetary Union, made the Heads of State and Government decide in October 1972 to create a Regional Development Fund
- Within the framework of this fund the assist is given to the less developed regions, mainly concentrating on improvement of public infrastructure and promotion of entrepreneurship through investments in infrastructure.

49

European Regional Development Fund (ERDF)

The ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions by providing financing primarily to the following sectors:

- direct aid to investments in companies (in particular SMEs) to create sustainable jobs;
- infrastructures linked notably to research and innovation, telecommunications, environment, energy and transport;
- financial instruments (capital risk funds, local development funds, etc.) to support regional and local development and to foster cooperation between towns and regions;
- technical assistance measures.

50

European Social Fund

ESF was established by the Treaty of Rome (art. 123) in 1957, to promote employment possibilities through professional training and employment support in European Union Member States.

ESF support is targeted:

- to avert any kind of discrimination and inequality in the labour market,
- to develop human resources
- to promote establishment of information society.

“

51

European Social Fund

The ESF supports actions in Member States in the following areas:

- adapting workers and enterprises: lifelong learning schemes, designing and spreading innovative working organisations;
- access to employment for job seekers, the unemployed, women and migrants;
- social integration of disadvantaged people and combating discrimination in the job market;
- strengthening human capital by reforming education systems and setting up a network of teaching establishments.

52

Cohesion Fund (I)

- **Cohesion Fund is** one of the financial instruments of the European Union's regional policy and aims at reducing economic and social disparities between Member States and between regions
- **CF was established by** the European Union Treaty (Maastricht Treaty) in 1992.
- It was set up with the aim to finance large infrastructure projects in the fields of environmental protection and transport.

53

Cohesion Fund (II)

The Cohesion Fund finances activities under the following categories:

- trans-European transport networks, notably priority projects of European interest as identified by the EU;
- environment; here, Cohesion Fund can also support projects related to energy or transport, as long as they clearly present a benefit to the environment: energy efficiency, use of renewable energy, developing rail transport, supporting intermodality, strengthening public transport, etc.

54

QUESTIONS?

55

Thank you for the attention!

56

Self- evaluation of Lecture 2

EU Cohesion policy, its principles and perspective development

1. What are the main principles of EU regional policy?
2. What periods for planning of EU Cohesion policy do you know?
3. What is the NUTS classification of regions? For which level of NUTS classification the EU Cohesion policy is primarily designed for?
4. Please, give a short overview of the Europe 2020 Strategy in relation to the EU Cohesion policy.
5. Please, describe the main EU funds in period 2014–2020. What are their expected impacts on the regional development in European countries?
6. Which fields of investment are important for regional development in long term perspective?
7. What are main results delivered as the result of EU Cohesion policy implementation?

Reading:

1. Molle, Willem, “European Cohesion Policy”, Routledge, 2007 – 347.lpp.
2. Rumford C. EUROPEAN COHESION? Contradictions in EU integration. ST. Macmillan Press Ltd. – London: 2000
3. Sixth Report on Economic, Social and Territorial Cohesion, European Commission, Brussels: 2014, 336 p.
4. EU Multiannual Financial Framework 2014 – 2020 and EU budget 2014. The figures, European Commission, 2013–28p, available at: [file:///C:/Users/ESC/Downloads/KV0413055ENC_002%20\(2\).pdf](file:///C:/Users/ESC/Downloads/KV0413055ENC_002%20(2).pdf)
5. Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, available at: http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm
6. Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006, available at: http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm
7. Regulation (EU) No 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006, available at: http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm
8. Council Regulation (EU) No 1300/2013 of 17 December 2013 on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006, available at: http://ec.europa.eu/regional_policy/information/legislation/index_en.cfm

Lecture 3: Regional and Social policy in the European countries

There are five planning regions in Latvia: Kurzeme, Zemgale, Vidzeme, Latgale and Riga. Borders of the planning regions almost match the borders of six NUTS 3 regions according to Eurostat classification. The main difference between these two classifications is in Riga region being divided into Riga Capital City region and Pieriga region under NUTS classification. Otherwise the Riga and Pieriga regions combined, would have exceeded the maximum population threshold for NUTS 3 region, according to Eurostat requirements.

The most widely used indicator to assess the economic development of any given territory is GDP per capita. Economic development in Latvian regions on 2011 data (last year for which the GDP data per capita are available in cross section of Latvian NUTS 3 regions) suggest that the highest GDP per capita €15,573 is in Riga region, which represents the territory of capital city Riga. The GDP per capita there is almost 2.8 times higher than it is in region with the lowest GDP - Latgale region, where it is €5,602 per capita. While the same indicator in the second best performing region – Kurzeme, exceeds the level of Latgale region 1.56 times.

The above comparisons suggest that differences in economic development between Riga city and other regions is larger than the differences among other regions themselves, this allows to put forward an assumption that the greatest challenge for equal territorial development of Latvia is not as much the differences among regions, as the explicit “core - periphery” disparities between the capital city Riga and the rest of the countries territory.

Objectives for Regional policy in Latvia are set in a number of legislative acts and planning documents. The key document - Law on Regional Development states that its purpose is “to promote and ensure balanced and sustainable development of the State, taking into account special features and opportunities of the entire State territory and of separate parts thereof, to reduce the unfavourable differences among them, as well as to preserve and develop the features characteristic of the natural and cultural environment of each territory and the development potential thereof.”¹

In the National Development Plan of Latvia 2014–2020 under the priority “Growth of regions” three more detailed regional development objectives are set:

- Promotion of Economic Activity in the Regions: Unleashing the Potential of Territories;
- Availability of Services for Creating More Equal Work Opportunities and Living Conditions;
- Sustainable Management of Natural and Cultural Capital.²

1 Law on Regional Development (2002), available at www.likumi.lv (accessed: 1 June 2014)

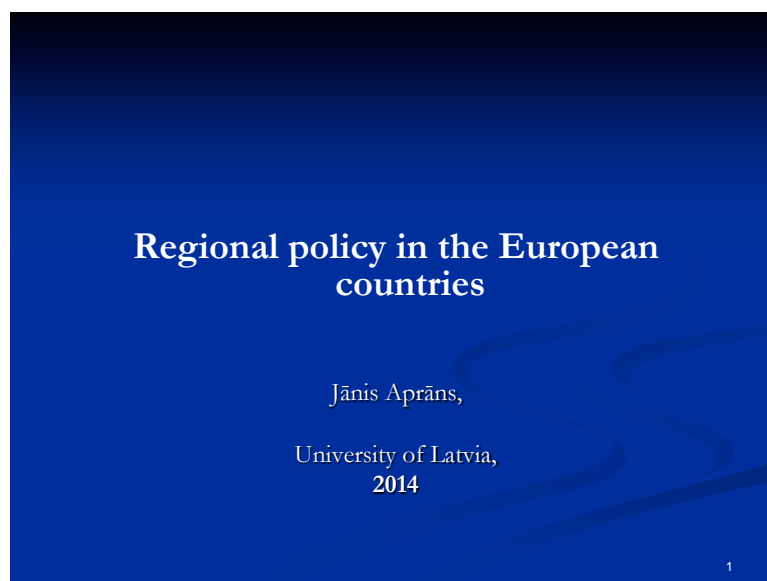
2 National Development Plan of Latvia for 2014–2020, available at: <http://www.pkc.gov.lv/par-nap2020> (accessed: 1 June 2014)

Administrative territorial reform in Latvia completed on 1 July 2009, since then there is only one level of local governments left, instead of two level self-governments as it was under the previous institutional arrangement.

Under the current administrative division, there are 110 local governments and 9 republican cities while before the July 1, 2009 there were 26 district governments and 522 local governments.

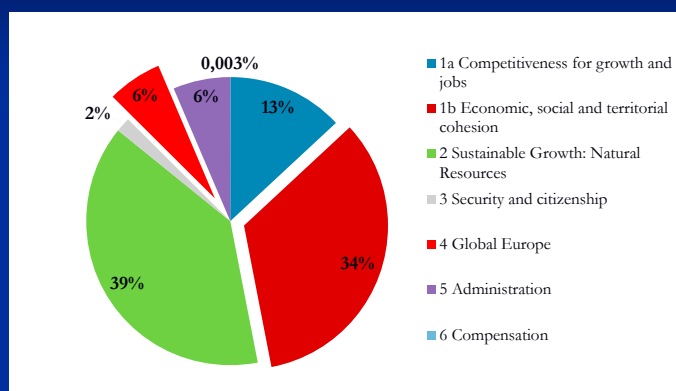
The main actors within the institutional framework for regional policy in Latvia are the Ministry of Environmental Protection and Regional Development (MoEPRD), the State Regional Development Agency (SRDA) subordinated to the MoEPRD, and administrations and development councils of five planning regions. The local governments also are considered among institutions implementing Regional policy to some extent, although their primary role is to ensure territorial governance at the local level rather than implementation of Regional policy.

In concluding part of lecture information is provided on the National regional development support measures: subsidies for development of infrastructure, earmarked grants for the development of spatial plans of the planning regions and self-governments, earmarked grants to self-governments to provide free internet and computer use at self-government libraries, although since the latest economic crises of 2008 – 09 available resources from these instruments are very limited.



The Regional development policy of Latvia

EU Multiannual Financial Framework 2014–20



University of Latvia

3

Map of historic regions of Latvia

Source: <http://www.kartes.lv>

Territorial division in Latvia

Yet, at least two other divisions of Latvia's territory exist:

- 1) There are **5 planning regions**, and
- 2) **6 statistical regions (NUTS 3)** formed in Latvia.

Regions of Latvia

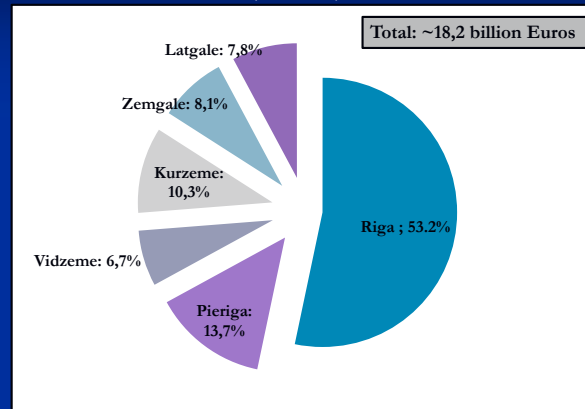


Planning regions and NUTS regions (as of 01/01/2012), Data: CSB

NUTS 3 region	Population	Relevant planning region	Population
Rīga city	699 203	Rīga planning region	1 091 638
Pierīga region	392 435		
Kurzeme region	293 453		293 453
Latgale region	329 701		329 701
Vidzeme region	228 331		228 331
Zemgale region	273 930		273 930
TOTAL	2 217 503		2 217 503

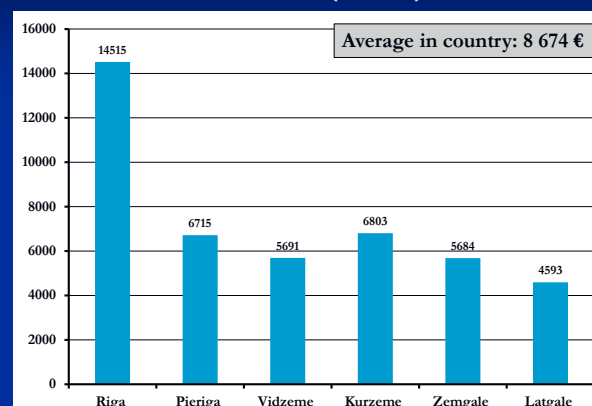
Source: "Development of Regions in Latvia 2011"; Data: OMCA and CSB

GDP in NUTS 3 regional cross-section (2010)



Data source: Central Statistic Bureau of Latvia

Per capita GDP in NUTS 3 regions, euros, (2010)



Data source: Central Statistic Bureau of Latvia

Administrative territorial reform

- As the result of the administrative territorial reform completed on 1 July 2009, there is only one level of local governments left, instead of two level self-governments as it was under the previous institutional arrangement.
- Under the current administrative division, there are **110 local governments** and **9 republican cities** while before the July 1, 2009 there were **26 district governments** and **522 local governments**.

District map before the reform



Map after the reform



What it means “Regional policy of Latvia”?

- National Regional policy
- EU Regional policy

Institutional framework

- Cabinet of Ministers
- National Regional Development Council
- Ministry of the Environmental Protection and Regional Development
- State Regional Development Agency
- Development councils of five planning regions
- Local authorities

Key documents (I)

- Regional Development policy concept (1996)
- Law on Regional development (2002)
- Regional policy guidelines (2004)
- National planning
- National Development plan (2004-2006)
- National Development plan (2007-2013)
- Sectoral Development Programmes

Key documents (II)

- Development Programmes and Territorial plans of Planning Regions
- Development programmes and Spatial Plans of District and Local Authorities

Hierarchy of planning documents



Regional Development Policy Concept

Regional Development policy concept defined the policy goals, focusing on ensuring favorable and equal environmental, living and work situation in all the regions of Latvia and on reducing unfavorable differences, ensuring sustainable development, integration in the EU and its regional policy processes. **Regional policy objectives for Latvia were also established in the concept.**

Law on Regional Development (2002)

The Law adopted in 2002 stipulates the following objectives:

- to promote and ensure balanced and sustainable development while taking into account the characteristics and the potential of all the territory of the country and its separate parts.

Law on Regional Development (2002)

- to reduce unfavorable disparities between parts of the country;
- to maintain and develop the characteristic features and the development potential of the characteristic features of nature and cultural environment in each territory.

Regional Development Principles

According to Law on Regional Development (2002), in the process of planning, management and financing, monitoring and assessment of regional development the following principles shall be observed:

1. Principle of concentration:

financing channeled in support measures of regional development shall be concentrated towards attainment of specific priority objectives.

Regional development principles

2. Principle of programming

Regional development support measures shall be implemented on the basis of regional development planning documents developed at the national level, the levels of planning regions and local authorities which determine the totality of development priorities and measures.

Regional development principles

3. Principle of partnership

Ensures cooperation between state administration institutions, international institutions, planning regions development councils, local authorities, which determine the totality of development priorities and support measures.

Regional development principles

4. Principle of additionality

Priorities defined by the State regional policy shall be financed from the state budget with the financial participation of local authorities, foreign financial assistance, legal entities and natural persons, including donations.

National support measures

- Subsidies for development of infrastructure (3,2 mio LVL in 2009, 1.5 mio LVL in 2010)
- Earmarked grants for the development of spatial plans of the planning regions and self-governments and amendments thereto (34,2 thousand lats in 2011)
- Earmarked grants to self-governments to provide free internet and computer use at self-government libraries. (~79 thousand LVL in 2012)

QUESTIONS, PLEASE?

Thank you for the attention!

27

Self- evaluation of Lecture 3

The Regional development policy of Latvia

1. What are the difference between „planning regions” and NUTS 3 level regions in Latvia? What is the main reason this difference exists?
2. What three regional development objectives are set in National Development Plan of Latvia 2014–2020 under the priority “Growth of regions”?
3. Please, explain the nature and main outcomes of the latest administrative – territorial reform in Latvia?
4. Which are the main actors (institutions) involved in shaping Latvian regional policy?
5. What kind of National support measures for regional development are available in Latvia? How would you characterize their impact?

Reading:

1. Development of Regions in Latvia 2012. Riga: State Regional Development Agency, 2012.
2. Kurzeme Planning Region: www.kurzemesregions.lv
3. Latgale Planning Region: www.latgale.lv
4. Law ‘Par par pašvaldību finanšu izlīdzināšanu’, available at: <http://www.likumi.lv/doc.php?mode=DOC&id=47361>
5. Law ‘Reģionālās attīstības likums’, available at: <http://www.likumi.lv/doc.php?id=61002>
6. Ministry of Environmental Protection and Regional Development of the Republic of Latvia: www.varam.gov.lv
7. ‘National Development Plan of Latvia for 2014-2020’, National Development Council, 2013, available at: http://www.nap.lv/images/NAP2020%20dokumenti/NDP2020_English_Final.pdf
8. Riga Planning Region: www.rpr.gov.lv
9. State Regional Development Agency: www.vraa.gov.lv
10. Sustainable Development Strategy of Latvia until 2030, pp. 61-89, National Development Council, 2010, available at: http://www.latvija2030.lv/upload/latvija2030_en2.pdf
11. The Cabinet of Ministers of the Republic of Latvia, Reģionālās politikas pamatnostādnes’, available at: <http://polsis.mk.gov.lv/LoadAtt/file56088.doc>
12. Vaidere I. [et al.] ,Regional policy and development of local government in Latvia and the European Union / pp. 209 – 257; Rīga: LU Akadēmiskais apgāds 2008.
13. Vidzeme Planning Region: www.vidzeme.lv
14. Zemgale Planning Region: www.zemgale.lv

Lecture 4: Evaluation as tool for analysis of EU Regional policy implementation

The tradition and practice of policy evaluation has developed based on the various roots of its origin and cannot be considered as general and homogeneous practice based on the same set of rules.

One of the most comprehensive available sources about the development of evaluation culture and practical application of the policy evaluation is the website of European Commission's Directorate General of Regional policy (DG Regio) on policy evaluations.

The DG Regio website suggests that during the course of historic development of the evaluation thinking, at least three important sources of evaluation thinking have to be emphasized:

- 1) The 1960s Great Society initiatives in the United States;
- 2) Educational innovation and in particular curriculum innovation in schools;
- 3) Budgetary control and efficiency systems such as Planning, Programming and Budgetary Systems (PPBS).

However, these are only three, probably the most well known, particular sources that have influenced the emergence and development of evaluation culture, but many more can be added.

The evaluation process in Latvia practically started with the assessment of EU pre-accession assistance, only afterwards spilled-over to other areas of public policy. There are at least three components that have to be emphasized in context of EU Cohesion policy evaluation framework:

- Legal provisions;
- Institutional arrangements;
- Expertise at the level of organizations and individual experts.

The legal provisions that are governing the evaluation of Cohesion policy involve both EU level and National level legislative acts, and the following legislative acts have to be listed as the most important ones:

- Council Regulation (EC) No 1083/2006 of 11 July 2006;
- Law on EU Structural funds and Cohesion fund management;
- Cabinet of Ministers Regulation No.1238 from 03/11/2010;
- EU funds Evaluation plan 2007 – 2013.

The legislation provides not only for the timing and scope of the evaluations to be carried out, but also sets out institutional arrangements that are supposed to ensure that evaluation activities are well organized and coordinated. In the case of Latvia the following institutions are involved in EU Cohesion policy evaluation:

- European Commission;
- Managing Authority (Ministry of Finance);

- Monitoring Committee and its Subcommittees; Responsible institutions and other institutions involved in the management of EU funds, including representatives from the planning regions;
- Consultative group of EU funds thematic evaluations.

While by the expertise component of evaluation framework is understood the experts and organizations (administrating bodies and consulting companies) involved in the evaluation process of effectiveness of EU Cohesion policy assistance.

At least two methodological approaches for carrying out evaluations of Cohesion's policy impact assessment can be distinguished:

- 1) Quantitative – econometric models;
- 2) Qualitative – studies based mainly on interviews with experts and administrators involved in administration of Cohesion policy funds.

Among the most frequently applied quantitative methods in evaluation of Cohesion's policy impact, mainly the econometric models, for example, such as HERMIN model, have to be analysed. While the most wide spread qualitative methods that have been applied in evaluation studies, are the surveys and interviews with experts and administrators, who are involved in administration of Cohesion policy funds assistance.

When having more detailed look at the quantitative methods, there are number of econometric models available that are used in evaluation of Cohesion policy's impact– QUEST, REMI (Treyz regional modelling framework), model by De la Fuente and Vives, and others.

However, the HERMIN model initially elaborated by Professor Bradley and et al at Economic and Social Research Institute (ESRI) in Dublin for economy of Ireland is the most widely applied (also by European Commission) in quantitative evaluation studies. Usually the scope of these studies is to determine the efficiency of Cohesion policy allocations by impact that these allocations have made to macroeconomic performance of the countries.

The main limitation for application of macroeconomic models is whether the amount of EU assistance is sufficient enough to make it possible to quantify the influence of EU assistance. The macroeconomic impact to performance of the countries can be estimated only "where the scale of transfer is large enough to have a discernible at macro-economic level. HERMIN model is elaborated and applied in so called "original Cohesion countries", namely - Ireland, Greece, Spain and Portugal, and for the New Member States which joined the European Union after 1 May 2004.

There are also several approaches for evaluation of Cohesion policy effectiveness by using qualitative research methods. For example, author Tassos Chardas in paper "EU Cohesion policy and Comparative Political Economy. The cases of Greece and Ireland" proposes to assess the effectiveness by applying analyses of Comparative Political Economy³. One of the research centres well known for its wide use of "qualitative" approach to carrying out of evaluations studies is the European Policy Research Centre at Strathclyde University in Glasgow.

3 page 3; Tassos Chardas, EU Cohesion policy and Comparative Political Economy. The cases of Greece and Ireland. 2005. – 22 p.

Regional policy in the European countries

Jānis Aprāns,
University of Latvia,
2014

1

Evaluation as tool for analysis of EU Regional policy implementation

2

Policy evaluation

- Evaluation has varied roots
- It is not a unified practice, or derived from a single set of traditions.
- Three important sources of evaluation thinking:
 - ✓ The 1960s Great Society initiatives in the United States;
 - ✓ Educational innovation and in particular curriculum innovation in schools;
 - ✓ Budgetary control and efficiency systems such as Planning, Programming and Budgetary Systems (PPBS).

These are only three particular sources and many more can be added.

3

What is policy evaluation?

“Evaluations . . . are intended to apply social science theory, methods and techniques to judge responsiveness, effectiveness and accountability in governmental and non-governmental organizations, to stimulate collective learning”
(G. Hellstem, *'Generating Knowledge and Refining Experience: The Task of Evaluation'*)

What is policy evaluation?

The essence is ... that evaluation is an activity involving the systematic application of social science theories, methods and techniques to identify and assess the processes, and impacts of governmental policies and programmes.
It may be conducted retrospectively or prospectively, in secret or in the public domain, by governmental or non-governmental organizations.
(Christopher Pollitt)

Development of EU Cohesion policy monitoring and evaluation

- Early Developments 1989 – 1993
- Stronger monitoring and evaluation obligations: 1994 – 1999
- New ambitions for monitoring and evaluation: 2000 – 2006
- Towards more flexible and needs-based approach in 2007 – 2013

Source: IQ-Net Thematic paper 21 (1), - 2007

Monitoring and evaluation during 1989 - 1993

- Before reforms of 1988 the monitoring and evaluation had a low priority
- The 1988 reforms introduced first obligations to monitor and evaluate the Structural funds (ex-ante and ex-post, financial and physical indicators, reporting to MCs)
- However, the evaluations were generally of low quality and were considered to lack methodological rigour

Source: IQ-Net Thematic paper 21 (1), - 2007

Monitoring and evaluation during 1994 - 1999

- MS and Commission co-responsible for appraisal and evaluation of SF, different stages (inc. interim) and information included in CSF, RDPs
- Financial and physical indicators to be set
- MEANS programme established in 1994 for spreading around the Evaluation culture
- Substantial improvements in the scope, scale and rigour of monitoring and evaluations systems (inc. macroeconomic modelling)
- Shortcomings: data quality for physical indicators, clearness of targets, data collection

Source: IQ-Net Thematic paper 21 (1), - 2007

Monitoring and evaluation during 2000 - 2006

- More detail on financial and physical indicators
- Clear division into ex-ante, midterm and ex-post evaluations;
- Information on implementation of programmes collected (quality of planning, impact on evaluation market, quality of evaluations, costs of evaluation, methodologies);
- Weaknesses – lack of primary research, too long reports, “absorptions concerns”, concentration on “analysis of outputs and results”

Source: IQ-Net Thematic paper 21 (1), - 2007

EU requirements on evaluation in 2007 - 2013

Based on the **COUNCIL REGULATION (EC) No 1083/2006** of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999:

- *Ex-ante*
- *Thematic (On-going) - operational and strategic*
- *Ex-post*

Evaluation framework

- Legal provisions;
- Institutional arrangements;
- Expertise at the level of organizations and individual experts.

Legal provisions

- COUNCIL REGULATION (EC) No 1083/2006 of 11 July 2006 (Chapter 1, Art. 47 – 49);

http://www.esfondi.lv/upload/05-saistose_dokumenti/es_regulas/2006-07-11_regula_1083-2006_EN.pdf
(p.43)

- Law on EU Structural funds and Cohesion fund management;
- Cabinet of Ministers Regulation No.1238 from 03/11/2010;
- EU funds Evaluation plan 2007 – 2013.

Institutional arrangements

- European Commission;
- Managing Authority (Ministry of Finance);
- Monitoring Committee and it's Subcommittees; Responsible institutions and other institutions involved in the management of EU funds, including representatives from the planning regions;
- Consultative group of EU funds thematic evaluations.

Expertise component

- Ability of public sector administrators to assess evaluation needs, prioritize and rank them as well as to formulate requirements for evaluation studies;
- Availability of companies and individual experts for conducting evaluation studies;
- Capacity (*volume and skills*) of market participants – companies and experts;
- Command of appropriate evaluation methods and techniques.

Quantitative or qualitative?

The methodology applied in evaluation of Cohesion's policy impact assessment might be:

- 1) Quantitative – econometric models;
- 2) Qualitative – studies based mainly on interviews with experts and administrators involved in administration of Cohesion policy funds.

Quantitative

- There are number of models used in evaluation of Cohesion policy's impact assessment – QUEST, REMI (Treyz regional modeling framework), model by De la Fuente and Vives.
- However, the HERMIN model elaborated by professor Bradley from ESRI in Dublin is the most widely used (also by European Commission).
- “The first attempt to develop the HERMIN model in Latvia was taken in year 1999 in the frames of PHARE program, but its development was interrupted due to lack in financing. In the year 2000 author of the original HERMIN model John Bradley got involved in the work of elaboration of model based methodology. It ended with the report „Ex-ante analysis of economic impact of pre-accession Structural Funds”

Policy evaluation in Latvia

- Basically, policy evaluation begun in Latvia with the availability of EU financial assistance and the accompanying implementation rules, which required that such evaluations be carried out.
- The ex-ante evaluation of the SPD for 2004-2006 was carried out prior to commencement of its implementation.

Qualitative: *Ex-ante* 2004 - 2006

- The results on macroeconomic performance substantially varied from those observed later during the period:

“By maintaining current fiscal and monetary policies the level of inflation should continue to remain below 3% bolstering Latvia's sound macroeconomic management” [SPD]

<u>Inflation level:</u>	2004	6.2 %
	2005	7.0 %
	2006	6.8%

HERMIN calculations

- **“If the Structural Funds are well spent they have the potential to significantly contribute to growth in the recipient countries and thereby help them converge.”** (“The Macroeconomic Impact of the Reform of the EU Cohesion Policy”; Bradley et al).

GDP in Latvia:	2009	-18%
	2008	-4.6%
	2007	+10%

Thematic evaluations

- Evaluation of the income to the state budget from the EU funds implemented projects;
- **An assessment of effectiveness of EU funds financial management and control system;**
- Evaluation “Preliminary study on the possibilities of EU funds management system simplification”.

Further reading and sources of information

- <http://www.eprc.strath.ac.uk/eprc/default.php>
- <http://www.esri.ie/>
- http://ec.europa.eu/regional_policy/sources/docgener/evaluation/evalsed/index_en.htm
- <http://www.esfondi.lv/page.php?id=306>
- Occasional Excursions: A Brief History of Policy Evaluation in the UK. Pollitt Ch., Parliamentary Affairs – Sage Publications
- G. Hellstem, 'Generating Knowledge and Refining Experience: The Task of Evaluation' in F. Kaufman (ed), The Public Sector: Challenge for Coordination and Learning (de Gruyter, 1991). See also M. Scriven, Evaluation Thesaurus (Sage, 4e, 1991).
- Making sense of European Cohesion policy: 2007 – 2013 on-going evaluation and monitoring arrangements IQ-Net Thematic Paper No.21 (2) - 2007

QUESTIONS, PLEASE?

Thank you for the attention!

23

Self- evaluation of Lecture 4

Evaluation as tool for analysis of EU Cohesion policy implementation

1. What are some of the main theoretical sources serving as the basis for development of evaluation thinking?
2. What components are forming evaluation framework?
3. Which institutions in Latvia take part in Cohesion policy evaluation process?
4. What qualitative evaluations methods do you know? Please, describe in more detail at least one of them!
5. What quantitative evaluation methods (econometric models) do you know?
6. How do you think what type of evaluation techniques – qualitative or quantitative can produced more trustworthy results in Cohesion policy evaluation?

Reading:

- 1) American Evaluation Association - <http://www.eval.org/>
- 2) Berg, L. Bruce, Qualitative research methods for the Social Sciences, Sixth edition, Pearson Education Inc., ASV: 2007. – 384. lpp.
- 3) Bradley, J., Untiedt, G. Assessing the impact of EU Cohesion Policy: What can economic models tell us?. Paper presented at the Bruegel Workshop Assessing the impact of EU Cohesion Policy in Brussels, May 15th. HERMIN Economic Paper 2-2012 – 26p.
- 4) Bradley J., Untiedt G., Mitze T. Analysis of the Impact of Cohesion Policy. A note explaining the HERMIN-based simulations. – Dublin: 2007 – 131.lpp.
- 5) Chardas Tassos. EU Cohesion Policy and Comparative Political Economy. The cases of Greece and Ireland. 2nd LSE PhD Symposium on Modern Greece. 10 June 2005.
- 6) Directorate-General for Regional and Urban Policy website's section on evaluation http://ec.europa.eu/regional_policy/impact/evaluation/index_en.cfm
- 7) European Evaluation society - <http://www.europeanevaluation.org/>
- 8) Patton, Michael Quinn, Qualitative research and evaluation methods, 3rd edition. Sage publications, Inc. – United States of America: 2002. 598.p.