

FAO/WB
Working Paper



photo 1. © Serdar Ercelik / Dreamstime.com



The Evolution and Impact of EU Regional and Rural Policy

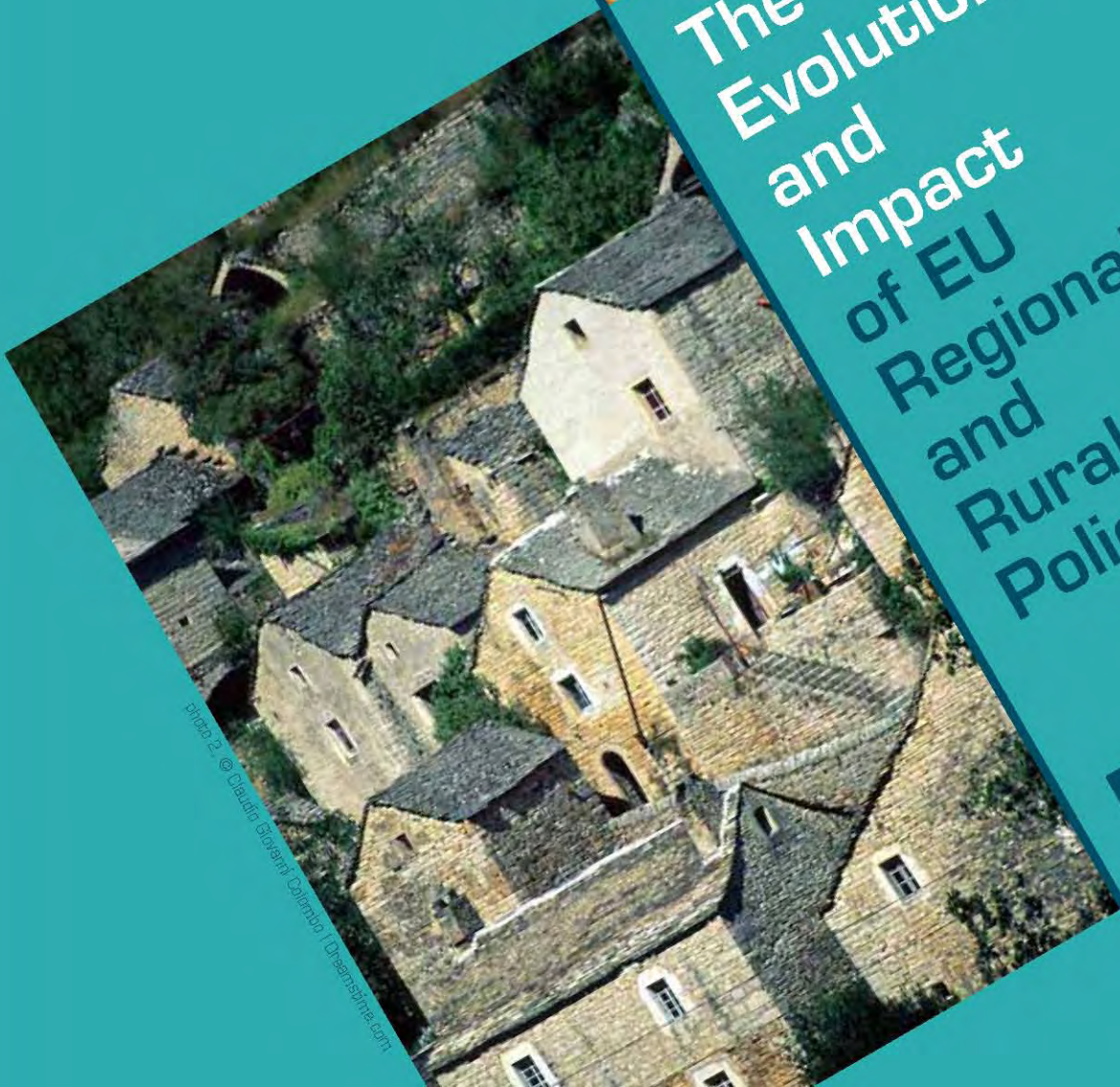


photo 2. © Claudio Giovanni Colombo / Dreamstime.com





FAO/WB Working Paper

The Evolution and Impact of EU Regional and Rural Policy

(Paper commissioned
by the ECA Social
Development Unit
and prepared by FAO
Investment Centre)



This occasional paper was commissioned by the World Bank under the FAO-World Bank cooperation. It was written as a background research paper for the 2009 edition of the World Development Report. Its main author is Jorge Nuñez Ferrer, Associate Research Fellow of the Centre for European Policy Studies. The paper was reviewed by Mrs Maria Donoso-Clark, Lead Specialist,

Sustainable Development Department (Europe and Central Asia Region), World Bank and Mr Emmanuel Hidier, Senior Economist, FAO. It also benefited from useful inputs from Messrs Claudio Gregorio and Paolo Lucani, FAO; Mr Franco Mantino, National Institute of Agrarian Economy (Italy); Mrs Christine Kessides and Mr Holger Kray, World Bank.

The Evolution and Impact of EU Regional and Rural Policy

The Rationale for EU Regional and Rural Policy

Since its origin, the European Union (EU) has paid close attention to social and economic cohesion. Initially, given the relatively homogenous nature of its founding countries, most concerns were directed at cohesion between social groups, in particular between agricultural workers and industrial and services employees. The Common Agricultural Policy (CAP) was also influenced by worries about social cohesion, in addition to apprehension about low food production in the 1950s and 1960s.

When countries with less favourable economic circumstances—in particular Spain and Portugal—joined the EU, marked economic differences between regions became a reason for concern. While the single market was expected to increase overall growth, there was a fear that regional divergence would be exacerbated. The theoretical work of Myrdal (1957)—which established that, contrary to what neoclassical models predict, the market reinforces regional divergence and economic agglomeration—fuelled this fear. Myrdal's cumulative causation theory predicted that developed regions would continue prospering in a virtuous circle of production and wealth, generating more of the same – what Kaldor (1966) translated as *economies of scale*. In contrast, underdeveloped regions would not develop and even decline due to negative causalities¹.

The later theory of *economic geography* by Krugman and Venables (1990) predicted a continuation of regional disparities based on the idea that, under an imperfect single market, transportation and transaction costs determine the level of convergence. At intermediate levels of trade barriers, benefits of the single market tend to concentrate in central economic regions. Krugman (1991a, 1991b) developed a core/periphery model, arguing that, in fact, the agglomeration of activities through cumulative causation and imperfect competition intensifies regional disparities. He argued however that these disparities could be reduced under new market conditions or rectified by relevant policy interventions. This provided justification for regional development policies, allowing a dual approach whereby the single market is encouraged for its overall benefits; while regional policies are designed

to foster geographic cohesion, at least until markets fully integrate. How to go about development policies remained unclear though, as the underlying causes for uneven development are often multiple and policy prescriptions scant and not always transferable.

Regional policy has been—and still is, partially—based on the idea that growth is generated by opening up less developed regions to trade while developing the infrastructures required to participate in the European common market. Capital is expected to flow to less endowed regions, as these are supposed to have higher marginal returns to scale, due, for instance, to lower labour costs. Regional policy is supposed to provide basic public infrastructures, allowing the establishment of economic operators, and finance employment programmes.

For certain circumstances, the theory has been validated, albeit quite unevenly. If convergence *between* countries has been clearly observed, the accumulation of economic activities *within* countries has actually increased at a faster pace in wealthier/agglomerated areas, causing further regional divergence. Nevertheless, the theory which propounds the necessity of opening markets while providing regional aid—and thus bringing growth and convergence—is one which still motivates the use of the EU cohesion policy or the use of Trans European Network (TEN)² funds to support the emergence of transportation, telecommunications and energy corridors. It is generally accepted that countries benefit from trade and integration, which fosters growth. However, the trickling down of benefits to the regional level is not guaranteed.

Another key influence on the planning and coordination of structural funds since the 1990s was the emergence of endogenous growth theories resulting from the influential work of Romer (1990) and, later, Aghion and Howitt (1998). These authors argued that technological change—which is a key element for growth—is not exogenously determined, as presented in the neo-classical growth models. Technological change is determined to a substantial extent by knowledge, in particular local initiatives and innovation, which can clearly be stimulated by public policy. Further studies, such as the econometric regression analysis conducted by Sala-i-Martin in 1994, demonstrated the link between higher growth rates and education and started to alter the thinking of the EU on determinants of growth.

¹ See Fujita (2007) for an analysis of Myrdal's theory.

² Regional policy is part of the EU's cohesion policy, which, however, also includes assistance at national level through the Cohesion Funds. The EU is developing Trans European Networks (TENs) for transport and, since recently, energy to facilitate the economic integration of the EU.

Endogenous growth theories supported the idea that growth can be influenced by numerous factors—in particular knowledge—which are not affected by diminishing returns, as is the case for capital investments.

The idea that human capital—and especially knowledge—can affect rates of growth started to influence regional development programmes and led to the introduction of measures in support of Small and Medium Enterprises (SMEs). These measures were not only a response to theoretical findings, but also to the observed limited duration of the effect of infrastructure development programmes on growth. It was recognised that differences in infrastructures alone could not explain diverging levels of economic growth. Infrastructures generated a short-term spurt in growth and employment, fading shortly after their completion.

It is interesting to note that Ireland grew fast to become the second wealthiest country in the EU, with an average GDP *per capita* at 138% of the EU25 average in 2005, despite its relatively low level of infrastructure. The OECD Economic Survey of Ireland (2006a) shows that the level of infrastructure *per capita* was amongst the lowest in the EU15. While this deficiency is now becoming a potential impediment to the further development of Ireland, it did not hamper its initial development spurt. The Irish case has attracted a lot of attention and has affected the approach to national and regional development in many places, in particular in some new member states.

In parallel to the influence of endogenous growth theories, economic geographers continued to develop more detailed models of the underlying mechanisms leading to agglomeration and economic divergence. Initially, researchers concentrated on observed disparities between regions and possible reasons for economic development disparities and agglomeration. More recently, researchers like Martin (2002, 2005, 2006) or Baldwin et al. (2003) started to derive policy implications from the observed factors determining regional growth. Unfortunately, results are partially discouraging. Trade integration leads to agglomeration because it lowers the costs of investments at the core, while innovation requires an array of inputs. Because of transaction costs, geographic concentration seems to be more efficient. High trade integration and high aggregate growth can therefore come along with increased regional income inequality. In many cases, the bulk of the benefits afforded to countries joining the EU accumulated in the most urbanised and industrialised areas. In other words, there is a certain level of trade-off between regional and national aggregate growth. In several respects, this trade-off is not surprising, but the EU continues to maintain that regional economic convergence is possible. Following this line, it has renamed the funds directed to the poorer regions as “convergence funds”.

More complex is the realisation that overall macroeconomic policy coherence plays a very important

role in the regional development. Ireland is believed to have had a policy framework conducive to development, with an open economy, low fiscal burden and sustained investment in education.

In this regard, the European Commission is pressing all member states to implement structural reforms. However, the recognition that the consequences of structural funds are strongly affected by factors beyond EU intervention has put into question the whole idea of regional assistance from the EU, particularly for poorer regions within richer economies. If infrastructures are not the main driver of development and national policies are key to determine regional growth performance, why should the EU transfer resources to these regions and, more generally, why should it invest so heavily in public infrastructures?

Both aspects—*i.e.* the trade-off between investments for regional growth and aggregate growth and the recognition that the success of regional policies largely depends on unrelated national policies—has opened a lively debate on the future of regional policies. The Sapir report (Sapir *et al.*, 2003)—a study prepared for the European Commission under the leadership of André Sapir—provided new theoretical references to reshape all regional policies at the occasion of the ongoing review of the overall budget structure presently undertaken by the EU. The Sapir report opened the discussion on the role that the EU could play to foster growth and confront the challenges that member countries face in the global economy, claiming that growth in Europe is hampered by a lack of structural reforms. The report argues—in line with the opinion of other academics—that poor regions in wealthy member countries should no longer be supported by EU regional policies. These regions generally have a sufficient infrastructural base, and their growth performance primarily depends on the quality of the national macroeconomic framework, rather than the allocation of EU funds, as shown by, for example, Tarchis (2007) or Gros and Micossi (2005). For poor regions, the main focus of regional policy should be on enhancing the knowledge base (rather than over-developing infrastructures) and fostering an appropriate economic climate in order to attract foreign investment. This controversial position is today under intense discussion within the EU.

The conceptual framework supporting the EU’s rural development policy has followed a different path. Initially, rural development was intrinsically linked to agriculture. The limited actions geared to rural development which accompanied CAP market measures between 1972 and 1994 were farm restructuring measures and were considered as part of the EU’s regional development policy. In fact, rural development was not seen as an element of agricultural policy but, as mentioned in many EU documents, it was considered as part of cohesion policy. The evolution of regional policy strongly influenced the EU’s approach to rural development and led to the so-called second pillar of the CAP after 1992 (Mantino, forthcoming). However,

since rural development policy became a separated item, there have been difficulties to clarify its scope. With increasingly broad interventions, rural development policy has started to finance actions that were originally falling under regional policy. In territories that are eligible to both policies, risks of overlapping competences can appear—which contradicts basic principles of EU funding, according to which similar actions should not be eligible to different funds.

Traditionally, rural areas have been considered as the domain of farmers. Despite its numerous objectives—enshrined in Article 33 of the Treaty of Rome—and until the MacSharry reforms of 1992, the CAP concentrated mainly on supporting farm incomes and reducing structural disparities with other sectors. The EU used primarily price and market support, and only marginally structural policies. Since the MacSharry reforms of 1992, the objectives actually pursued under the CAP have become much more diversified: environmental protection and the diversification of rural economies are now at the core of the main framework of the CAP. Having said that, budget-wise, price and direct subsidies to farmers remain the main element of the CAP, absorbing 70 to 80% of the agricultural expenses of the EU budget.

The original price support system was based on intervention prices, generally considerably higher than world prices, combined with a system of border tariffs and threshold prices. Under this regime, production significantly intensified, resulting in large surpluses which soon needed to be subsidised for exports, or destroyed. The effect of the export subsidies, which undercut local producers worldwide, created difficulties at the World Trade Organization (WTO). Under international—but also internal—pressure, the EU started to reform the CAP in 1992, reducing price support and introducing direct payments. It also embraced the emerging but then ill-defined notion of *multifunctionality of agriculture*. This term—first utilised during the Rio Earth Summit in 1992—aimed at presenting farming as an activity with significant positive impacts on the environment and on society as a whole. Multifunctionality reinforces the idea that agriculture needs to be supported, as market failures limit its positive externalities.

This shift in focus came at a time when it was widely acknowledged that sectoral support was failing. It was not only distorting agricultural markets and causing considerable environmental damage, but also failing to solve the problems of farm incomes, exacerbating income inequalities within the sector. To all evidence, sectoral support had not managed to stop the decline of many rural areas.

In this context, simultaneous to the emergence of the concept of multifunctionality, which placed farmers at the centre of rural development, new notions related to the diversity of rural economies and the need for holistic approaches emerged. In the middle of the 1990s, academics and the OECD developed a new concept for rural development which was not centered

on agriculture but on the endogenous potential of rural areas, encompassing any sector or activity where this potential might lie (OECD, 1996, 2001, 2003a and b, 2006b).

There are parallels in the development of regional policy and rural development policy. Both policies started assuming that investment in one area was sufficient to solve the problems of the region or of the rural areas. In regional policy, this took the form of heavy investment in infrastructures, while in the area of rural development this initial assumption translated into massive support for the agricultural sector.

In both cases, it became clear that the economic development of territorial areas depends on a number of interrelated factors. Regional and rural development programmes are now adopting similar approaches, even though rural development is still highly influenced by the interests of the agricultural sector. However, there is a general recognition that policy coherence is needed at the national level, with fiscal and labour market policies that do not hamper the economic development of the country and its regions. The second common premise is that, to foster the development of regions and rural areas, support should target the needs of specific territories.

Today, both policies are seeking to foster labour productivity by developing a knowledge-based economy at the regional and rural level. Through education and training, economic actors are enabled to introduce best practices and technologies. Innovation is at the core of policy interventions, while the development of basic infrastructures is seen as a tool to allow market opportunities to deploy efficiently. The general idea is to create an environment for self-sustaining endogenous development. Knowledge—and therefore the mobilisation of human capital—is believed to be the basis on which productivity gains and local economic development can be achieved. This new approach requires the mobilisation of local actors, a fundamental element of any endogenous development approach, in line with the subsidiarity principle of the EU, which requires that policies are designed and implemented at the most appropriate level of governance. In practice, regional and rural development programmes often face similar challenges, i.e. engaging local economic actors in developing a coordinated approach to the development of their region/area.

Another important point to note for regional and rural policies is that the latter are increasingly used to foster wider objectives of the EU and to promote the “European way” of addressing regional development. The endogenous development approach to territorial development is not simply delegated to member states, but is guided through regulatory decrees from the EU. Regional funds are often a considerable part of public expenditure for economic development in poorer member states. Applying conditionalities and setting priorities ensures that funds promote certain European objectives, including the method of

programming, which requires stakeholder consultation and specific administrative mechanisms. This is visible from the earmarking of funds for improving competitiveness, protecting the environment and, more recently, combating climate change and improving administrative capacity through specific Operational Programmes (with the view to upgrading to EU standards). While member states still have a clear say in the way funds are used, the EU can influence the overall direction.

Regional and rural development funds are thus used as an indirect mechanism to press for strategic planning systems based on such concepts as stakeholder involvement or Public Private Partnerships (PPP), which—especially in the new member states—were completely alien. The cohesion policy has often

been a very strong driver to important changes in the administrative culture of member states, generally improving their overall administrative performance, communication with citizens and capacity to design and run programmes. Key to these changes has been the extensive use of twinning programmes, whereby officials of member states work alongside local officials in developing appropriate structures over several years.

In the case of the latest enlargement, regional policies are effectively influencing the development strategy of large parts of, if not the whole of, the territory of new member states. In view of the low Gross National Income (GNI) of these countries, the EU regional policy has become an overwhelmingly powerful tool in influencing government strategies towards economic development.

Origins and Evolution of EU Regional and Rural Policy

In the last 50 years, EU policies for regional and rural areas have changed markedly. Some changes were radical and transformed the utilisation of EU budgets dramatically. These milestones are listed in Box 1 below

Box 1. Milestones in the Development of EU Regional and Rural Policies

1964	Launch of the Common Agricultural Policy (CAP)	Focus on price support.
1972	Introduction of Rural Development Funds	Introduction of limited farm restructuring measures.
1975	Creation of Regional Funds	Introduction of transfers between member states (not regions).
1988	Delors I Package	Foundation of the present budget structure; introduction of multi-annual financial frameworks and fundamental principles of regional funds.
1992	Delors II Package	Large increase in regional funding
1992	MacSharry Reforms of the CAP	Introduction of direct payment mechanisms; phasing out of price support; reinforcement of rural development policies.
1999	Agenda 2000	Deepening of the reform of the CAP.
2000	Lisbon Strategy	Focus on growth and employment, through innovation.
2003	Mid-term Review of the CAP	De facto decoupling of direct income support from production in the CAP, reforms of agricultural markets.
2005	Reform of Rural Development Policies	Widening of scope of rural policies to support non-agricultural actors.
2007	New EU Financial Perspectives	Reform of the budget, stronger focus on employment and innovation.

Origins of Agricultural and Rural Development Policy. The Common Agricultural Policy was the first common policy of the EU. From its early days, the European Commission was worried about the conditions of the less favoured areas and social groups in the Community, as documented in the expert group report of 1964 (European Commission, 1964). Farming was at the core of these concerns. While incomes in other sectors of the economy were increasing, farm incomes were stagnating. Overall, the agricultural sector of the Community was underdeveloped and was not able to allow self-sufficiency, an issue of concern at the time.

EU Commissioner Sicco Mansholt called for an agricultural policy based on a broad rural development approach. The Mansholt plan—presented to the Council of Ministers in 1968—proposed a change in the policy of agricultural transformation assisting the consolidation of farms into viable units. The policy included welfare measures, early retirement schemes, and vocational training. However, it was not endorsed by the Council of Ministers and only a system of price support was maintained.

Limited assistance to farm restructuring was eventually introduced in 1972, through the guidance section of the European Agricultural Guidance and Guarantee Funds (EAGGF)³. The guidance funds would later become part of the overall package of Structural Funds. In any case, nothing close to what would be described today as a full-fledged rural development policy emerged before the 1990s.

Origins of Regional Development Policy. The first element of the EU's regional policy was the European Social Fund (ESF), which aimed at rendering workers more employable and mobile, and the guidance section of the EAGGF. The ESF focused on Southern Italy, while the Guidance Fund for Agriculture targeted commercial holdings in the wealthier parts of northern Europe. The European Coal and Steel Community (ECSC), which was still part of the European Community⁴, also offered concessional loans to regions affected by the restructuring of the mining sector and the European Investment Bank (EIB) granted loans for specific regional projects. In each case, funds utilised for regional development were limited and disbursed without any clear strategic focus (Martin, 1998).

³ Guarantee funds are based on market measures, i.e. payments not linked to projects but specific farm production systems (e.g. headage payments, payment for set-aside, biofuels, etc.), today not linked to the volume of production.

⁴ The ECSC remained a separate entity of the EU until 2002, when its mandate finished. The responsibilities and assets were taken over by the European Commission.

The oil shock of 1973 and the first enlargement of the European Economic Community (EEC) to Britain, Ireland and Denmark reinforced the need to support regional development. In 1975, the European Regional Development Fund (ERDF) was established and incorporated into the primary law of the Community, the Treaty of Rome (Art.130C). Funds were allocated nationally, based on a system of quotas per country, and projects had to be co-financed by national budgets. The ERDF mainly transferred funds from wealthier to poorer member states and, in practice, was not regional. Most funds were spent on infrastructure projects that lacked economic rationale, with limited additional impact, as most member countries used them to reduce expenditure on projects that were already planned (Martin, 1998).

The Delors I and II Packages and the New Approach to Regional Development.

It was only in 1988 that a real regional policy emerged, creating the foundation of the present system. An important reason for this development was the entry of Spain and Portugal, which – together with Greece, Southern Italy and Ireland – created a wide area with incomes considerably below those of the richer member states. Under the leadership of the European Commission's President Jacques Delors, important reforms of the EU budget took place, which boosted the role of the EU in regional development. This package of reforms, called the Delors I package, set up an automatic system of budget resources for the EU and introduced multi-annual financial frameworks, which in turn allowed longer term regional development strategies. This package also markedly increased budget allotments for regional development and introduced guiding principles that are still in force today, in particular the shared management of funds between the Commission and national authorities.

The disbursement of funds was based on five principles which still apply today: concentration, programming, partnership, additionality and monitoring & evaluation of programmes and projects. Concentration means that interventions have to focus on areas in need, i.e. low income regions where GDP per capita is less than 75% of the EU average or areas in industrial decline. Programming—as opposed to single project financing—calls for coordinated medium-term plans with overall objectives. Partnership imposes a shared responsibility for the preparation and implementation of programmes between national and regional authorities and the European Commission. A rather radical innovation for many countries—which was bound to affect the governance structures of regions—has been the application of the principle of subsidiarity, i.e. the role of regions in determining their own development programmes. The additionality principle requires member states to ensure (as well as demonstrate) that EU support does not replace planned national public expenditure, but should be additional to it.

One of the most important decisions affecting regional development funds was the creation of specific regional policy objectives and the establishment of clear eligibility criteria. Originally, any region which

was *nationally* eligible for regional funds could be a beneficiary. This caused an allocation of funds based on inconsistent eligibility criteria, as member states could change the level of support received by altering national eligibility parameters.

The new objectives of regional development included:

- 1** Development and structural adjustment of lagging regions (GDP per capita under 75% of EU average);
- 2** Conversion of regions or parts of regions seriously affected by industrial decline;
- 3** Combating of long term unemployment;
- 4** Occupational integration of young people;
- 5a** Speeding up of the adjustment of agricultural structures;
- 5b** Development of rural areas.

While objectives 1, 2, and 5b were territorially determined, funds disbursed against objectives 3, 4 and 5a could support programmes addressing specific issues that are not limited to particular areas.

The Delors II package, which set new financial mechanisms for the 1994–1999 budget period, was a response to the Maastricht Treaty signed in 1992. The package addressed fears of increasing regional divergence created by the single market and the foreseen introduction of the single currency by doubling the assistance given to regional development. It also created cohesion funds for trans-national transport corridors and other infrastructures in countries with a GDP *per capita* below 90% of the EU average, i.e. the *cohesion group* of countries (Spain, Portugal, Ireland and Greece).

The MacSharry Reforms of the CAP. In 1992, the MacSharry reforms changed the nature of the EU's agricultural policy and created the basis for a strong rural development policy. Through the 1970s and 1980s, the CAP suffered from a lack of vision on rural development. The Commission announced for the first time in 1988 that its rural development policy had to take into account the overall potential of rural areas ("The Future of Rural Society", European Commission, 1988). In this document, the EU recognised that, of the 166 areas of the European Community at the time, only 10 Mediterranean regions had a share of employment in agriculture in excess of 30%, while, in 118 other regions, less than 10% of the employed were working in agriculture. Regional economies had diversified and rural areas depended on the development of more sectors than agriculture.

Despite this declaration, changes were initially motivated by the need to find alternatives to CAP subsidies in line with WTO green box requirements. They were also a response to the detrimental effects of a market policy concentrated on productivity (through price support), with scant regard to the environment or product quality. Food safety scandals—in particular the BSE crisis—put pressure on the EU to introduce measures for the environment and food safety.

In the first fundamental reform of the CAP, the MacSharry reform—named after the EU Agriculture

Commissioner of the time—direct payments to farmers were introduced to reduce price support, and a clear rural development policy was formulated. It promoted agro-environmental and farm restructuring measures (including early retirement schemes and diversification of economic activities for farmers). Introducing fully holistic rural development programmes would have required very important changes in the attitude towards agricultural policy, changes which needed preparation. Consequently, the Commission soon launched in parallel a pilot programme for rural development—LEADER—to pave the way and change mentalities on rural development through actual demonstration.

The Lisbon Agenda and the 2000–2006 Financial Perspectives. Further to the reforms of regional policy and the reform of the CAP in 1992, regional and rural policies were hardly modified for the multi-annual budget of 2000–2006. The agenda was dominated by discussions of budget mechanisms and the enlargement to Central and Eastern Europe, which limited any attempt to significantly modify existing policies. New reforms to the CAP in 2000 simply reinforced the elements of the 1992 reform. The weak economic performance of the EU, however, prompted the EU Heads of State to launch the Lisbon Agenda, a declaration of intent calling for member state policies to promote growth. The concrete impact of the Lisbon Agenda on regional or rural policies was limited.

The Mid-term Review of the CAP and the Rural Development Reform. In 2003, the EU launched a surprisingly ambitious reform of the CAP, further decoupling direct payments from production and introducing single farm payments. Subsequently, it decided to reform rural development policies and, in 2005, agreed on a new policy to implement from 2007 onwards. Today's EU rural development policy has a large number of measures, which can be classified on four main axes:

- 1 Improving the competitiveness of the agricultural and forestry sector;
- 2 Improving the environment and the countryside;
- 3 Improving the quality of life in rural areas and diversifying the rural economy;
- 4 LEADER.

The first two objectives absorb the largest part of the funds. The second objective mainly addresses farm and farm-related environmental issues and countryside stewardship problems. Together with part of Axis 3, LEADER is the only holistic approach to rural development, attempting to mobilise all the economic actors of rural areas. It was conceived as the prolongation of a pilot programme implemented between 1994 and 1999, which had encouraged territorial entities to prepare programmes for the endogenous development of their rural areas.

LEADER intends to mobilise and empower economic actors in defined territorial areas to collaborate in designing and implementing a development policy adapted to their region. To do so, LEADER entrusts self-formed Local Action Groups (LAGs) to develop and oversee programmes and achieve development

objectives. These groups are composed of 50% public authorities and 50% private sector. This is a completely new approach to development where control is not transferred to government or regional authorities, even if local authorities clearly have a role to play within the LAGs. The relationship of power between the authorities and the LAGs has varied substantially between regions, depending of the local administrative culture. Transfer of real control to the LAGs and the collaboration between the public and private members within these groups has not always been perfect, and some regional authorities have kept a tight control over the system.

The LEADER approach seems to have been generally successful. LEADER only attracted a small fraction of EU funding to rural development (around 5%), but in practice real investments have been more significant, since other rural development measures have been implemented through the LAGs and member states have developed their own programmes with national funding in other rural areas, emulating LEADER. Even if, in many cases, evaluators have had difficulty quantifying the impact of the programme, LEADER has certainly contributed to creating innovative initiatives and local collaboration, which has helped improve living standards in the areas concerned.

The Legacy of the Lisbon Agenda and the 2007–2013 Financial Perspectives.

The real impact of the Lisbon Agenda and the wish to appropriately foster endogenous growth only started to materialise in earnest in the present 2007–2013 Financial Perspectives and programming period. The budget structure has been reformed, reinforcing the allocation of funds for growth-enhancing investments outside regional policies and clearly separating rural development funds into a special subheading, no longer part of regional policies and only indirectly linked to the CAP.

The Lisbon Agenda called for member states to step up efforts to foster growth, by focusing on the knowledge economy and innovation—through the improvement of the quality of human capital—and by investing in missing infrastructures. Based on the commitment of member states, the Commission took the initiative to restructure the programming exercise and increase the quality of strategic documents. It also presented Community Strategic Guidelines for its cohesion policy (COM(2005) 0299), a set of relatively loose directions to ensure a more growth-oriented focus. Furthermore, it imposed the need to earmark 60% of structural funds to growth-oriented investments in convergence regions, except in new member states, where this threshold is recommended but not imposed, as the need for large investments in infrastructure was acknowledged.

Eligible member countries have to draft a National Strategic Reference Framework (NSRF), which presents in a rather short text the main guidelines and objectives directing the utilisation of funds, as well as the implementation of management structures. Other more detailed programming documents describe the expected utilisation of funds (the so-called Operational Programmes for the cohesion funds, structural funds, social funds and rural development funds).

Regional and Rural Policy Results

Pre-Maastricht & MacSharry

Prior to the Delors packages, regional policy involved a simple transfer of resources between member countries, which were then used to finance major infrastructure projects in regions selected according to eligibility criteria, which were determined at *national* level. No efficient system of control and evaluation was in place and the Commission played no role in monitoring the use of funds. In these circumstances, funds were often used to reduce public expenditures instead of supporting additional investments (Martin, 1998). With the significant increase of funds and eligible expenditures, clearer rules governing the funds had to be established. From 1988 onwards, the disbursement of funds was governed by clearer criteria, with additionality rules ensuring that funds were used to promote new investments. The Commission was also able to share management of the funds.

Although the first features of an endogenous development strategic approach were introduced in 1988, due to the increasing involvement of regional authorities and civil society, most interventions concentrated on infrastructures. Results were encouraging, because of the favourable impact of basic infrastructures on growth, which initially ensure high returns. However, this approach soon reached its limits and, with the marginal returns of additional infrastructures decreasing, the impact of structural funds was less impressive during the 1994–1999 period. Certain important aspects, such as the development of human capital and the foundation of sustainable long-term growth through innovation, were typically not addressed. The impact of initial regional policies therefore remained questionable due to a fundamental lack of quality in strategic planning.

The quality of programming at the local level started to appear as a key prerequisite to reaping the benefits of a growth approach based on mobilising endogenous potential through targeted interventions. Regions showed marked differences in this respect. Some, led by Ireland, were rapidly growing (Bradley *et al.*, 2001; de la Fuente, 2002), while others, such as Southern Italy and parts of Greece, lagged behind (Leonardi, 1995,

Leonardi and Paraskevopoulos 1996). These contrasts in economic (and fund) performance were ascribed to the uneven quality of local administrations and their planning capacity. “...*the outcome of development strategies is determined by the presence at regional and local levels of crucial political (institutions, institutional networks) and socio-cultural (social capital) factors, rather than by the availability of economic resources.*” (Leonardi and Paraskevopoulos, *ibid.*, p. 14).

Not until the 2000–2006 budget exercise did the European Commission, with leading academics⁵, start to reconsider the direction of policies, emphasising the development of better guidelines for fund disbursement and integrating elements of planning and programming, in order to attain the goals of the Lisbon Agenda.

In the area of rural development, before the MacSharry reform, the main policy directed towards rural development was the CAP, with spillover effects of interventions under the structural funds at regional level, when rural areas happened to be within eligible territories. Nevertheless, there was some limited funding dedicated to farm restructuring in the structural funds. The use of price support as the main tool of the CAP introduced a large number of distortions. It promoted the extreme intensification of agricultural production, with land rents and increased input costs capturing most farm earnings induced by the policy. The CAP proved unable to improve farm incomes as intended, while inducing overproduction, distorting world prices and damaging the environment. The policy was regressive: large landowners capitalised on the policy, increasing income disparities within the sector.

Export subsidies and storage prompted ever growing costs in the EU budget and increasing tensions over the financing of the policy. Export subsidy costs rocketed to EUR 10 billion in 1991, while storage costs reached EUR 5 billion. Some damage control reforms started during the 1980s – such as the introduction of milk quotas. However, it was only the MacSharry reform in 1992 that created the basis for a novel approach to agricultural support and rural policy.

⁵ The European Commission uses high-level groups composed of leading academics and other experts to analyse many aspects of EU interventions. To elaborate on the future of EU policies aimed at promoting growth, including through EU budget interventions, the high-level group “An Agenda for a Growing Europe – Making the EU Economic System Deliver” was created. The group was headed by Professor André Sapir, a member of the Group of Policy Advisors to the President of the European Commission. This group was composed of seven internationally renowned academics. The final report—commonly called the Sapir Report—is still today a central reference for discussions on reforming the economic structure of the EU and the policies to promote growth and economic development.

The New “Endogenous” Approach to Regional and Rural Policy

Endogenous growth orientation and knowledge based economy. Since the 1970s, the EU has consistently been 30% behind the US in terms of GDP per capita. The difference in performance can be attributed to shorter working hours, lower employment rates and lower productivity. Interestingly, further integration and the introduction of the single currency did not close this gap. These major institutional successes have not markedly changed the performance of the EU (Sapir *et al.* 2003). All elements point to the following conclusion: differences in leisure preferences account only for a third of the gap, so the other two thirds have to be linked to lower productivity and lower employment rates. This productivity gap and low employment rates have already been worrying the EU for some time, but the magnitude of the explanatory power of these two variables has important connotations for European policy debates on economic structural reform, which also affect regional planning. In 2000, member states agreed in Lisbon to stimulate economic growth by adapting policies to foster innovation and employment, and to improve the sustainability of their economies. Labour market reforms, education and investment in new technologies would create the conditions for endogenous growth, or the basis of the so-called knowledge based economy. Unfortunately, not many member states have acted convincingly. Employment rates have increased but without qualitative productivity improvements, which require investments in human capital and innovation.

Some labour market reforms have improved labour market participation, but with little effect on GDP growth, as they mainly increased the employment of people with lower education, driving down average productivity. This is, of course, a simplification. Sapir *et al.* (2003) and Gros and Micosi (2005) drew more detailed conclusions on the inability of the EU to increase total factor productivity. Education, research and development are pointed out as important aspects, but so too are structural rigidities and a lack of industrial restructuring, which in Europe has particularly important political connotations.

Regional funds, knowledge based economy and endogenous development. This increase in awareness began to affect regional funds. It stepped up pressure on national and regional authorities to design strategies for regional

aid that would foster endogenous economic development, taking into account varying realities on the ground and drawing local actors into the planning process, i.e. the combination of a local bottom-up and endogenous development approach within a top-down imposed framework.

All strategies are supposed to be consistent with overall National Reform Programmes⁶ aimed at introducing necessary structural reforms. Regional funds also became a fundamental tool in directing national macroeconomic policies and in structuring national policies in new member states, as most, if not all, of their territory is covered under the convergence objective.

For the use of regional funds, stronger emphasis on education, innovation, training and the use of venture capital was encouraged. Driven by endogenous growth theories and recent developments in increasingly popular economic geography studies, regional—and also rural—funds are now supposed to be more focused and to better capture the development potential of regions. In the European context, seeking to exploit the development potential of regions is particularly important. As explained by Martin (2002), the EU has a lower mobility of labour than the United States, thus the reduction of GDP discrepancies induced by the mobility of factors—as predicted by neoclassical economic theory—is slow and politically sensitive.

While restructuring the economy through macroeconomic policies is a first step to fostering growth at the EU and national levels, fostering development at the regional level to avoid increasing regional disparities and promoting regional convergence requires local action in tune with local potential. Rather than aiming at a perfect GDP convergence between regions—which is not realistic as it is a measure of production and not incomes—the objective is to generate the maximum development level using internal capacity. Remaining divergences can be approached through other social policies.

The top-down approaches, based on the development of infrastructures or the introduction of employment programmes, have shown their limitations. On the other hand, promoting endogenous development at the regional and rural levels requires a process of local social mobilisation. In other words, the different interests of the

⁶ Member states are required to write National Reform Programmes, which are discussed at EU level in a benchmarking exercise, but the European Commission does not have the power to impose any reform.

⁷ The European Council met in Göteborg on 15 and 16 June 2001 and agreed on a strategy for sustainable development. It added an environmental dimension to the Lisbon process for employment, economic reform and social cohesion

community have to be brought together to draw a development strategy in tune with local potential and needs. To increase the productivity and the employability of people in regions, and in particular in rural areas, the close participation of local actors has been identified as a key factor.

These attempts to mobilise private actors from all areas is a novelty in Europe, where the traditional approach to development and social policies has been rather top-down, with states closely regulating the activities of their citizens, in contrast to the less interventionist system in place in the US.

The priorities for the use of regional aid are described in the Community Strategic Guidelines on Cohesion Policy, 2007–2013 (COM(2005) 0299). These clearly emphasise the need for a sustainable development strategy based on local participation:

- Improving the attractiveness of member states, regions and cities by improving accessibility, ensuring adequate quality and level of services, and preserving their environmental potential;
- Encouraging innovation, entrepreneurship and the growth of the knowledge economy through research and innovation, including the development of new information and communication technologies; and
- Creating more and higher quality jobs by attracting additional people into employment in entrepreneurial activities, improving the adaptability of workers and enterprises and increasing investment in human capital.

Similarly, the Community Strategic Guidelines for Rural Development require to "*identify [within this framework] the areas important for the realisation of Community priorities, in particular in relation to the Göteborg sustainability goals⁷ and to the renewed Lisbon strategy for growth and jobs.*"

Furthermore, the European Commission now requires convergence regions to earmark 60% of funds for growth-oriented expenditures and other regions to earmark 75% of other funds for competitiveness and employment programmes. The nature of growth-oriented expenditures is elaborated upon in Annex IV of Council Regulation (EC) N°1083/2006, dated 11 July 2006. For convergence regions, the selection of eligible categories also includes—apart from R&D and education—some large infrastructure items such as motorways, railways or inland waterways, which in non-convergence regions are not considered as growth-oriented expenditures. This is because their impact at low levels of capital is expected to be higher.

The growth pole approach. One of the key elements of regional planning which addresses the realisation of the endogenous development potential of EU regions can be found in the national strategies for the EU funds. This is the need to create growth poles in the medium-sized cities of the regions, based on a polycentric development strategy. These growth poles are seen as anchorage points that create important economic spillovers for surrounding areas, through the provision of markets and services and improved access to education and new technologies. Regional planning often includes the development of links between growth poles and their surrounding areas. The cohesion reports regularly released by the EU (*e.g.* European Commission, 1999, 2003, 2007) put the emphasis on this aspect, so did the important ESPON (European Spatial Planning Observation Network) evaluation of the EU's territorial policies (ESPON, 2006).

The increasing use of the term "territorial" in the EU's regional and rural development policy has important connotations. The concept of territorial development originates from economic geography and spatial planning. It denotes a very wide concept of development, setting it apart from traditional regional or sectoral policies which often focus on limited actions in specific administrative boundaries (regions) and/or for specific social groups. Territorial development denotes a holistic strategy which takes into consideration the overall fabric of the areas of intervention and surroundings, such as their economic, social, administrative, technological and geographical features. Regional and rural development policies are thus just elements of a wider territorial strategy.

The idea that appropriate planning of support based on territorial characteristics started in the European Spatial Developing Perspective (ESPD) (European Commission, 1999). In this document, the Commission emphasised the need for polycentric development. The concentration of support for growth poles was promoted to benefit regions and, through regional spillovers, the country as a whole. This concept is still being discussed at length among member states.

The EU Ministers responsible for spatial planning met in Leipzig in 2007 and presented the "*Territorial Agenda of the European Union*"⁸. This document sets a road map for developing a new and stronger territorial approach, consisting of a "*polycentric territorial development of the EU, with a view to making better use of available resources in European regions. An important aspect is the territorial integration of places where people live*"⁹. The

⁸ Economic geography is the study of the location, distribution and spatial organization of economic activities while spatial planning is the use of public interventions to alter it..

⁹ *Ibid.*, p.1 paragraph 3

document also calls for the active participation of all stakeholders of territorial development, referring to the so-called territorial governance approach.

This territorial agenda can be partially interpreted as a response to the increasing threat that the regional policy would be discontinued in regions of wealthier member states – as mentioned in the Sapir report, *i.e.* the implicit threat of a return to a policy based on transfers to member states, rather than individual regions.

Planning at regional level and stakeholder participation. One important factor to facilitate the elaboration of a successful development strategy is the involvement of regional authorities and stakeholders. Cole (2003) discusses how the EU's regional policy has empowered regions to claim ownership over their own development in countries with strong central planning mechanisms. These regions eventually managed to win important control over their development strategies, subject to the approval of the central state.

Regional policies are generally designed by regional authorities, which guarantees that planning is more in tune with regional potential. Consultation of local stakeholders is also a common requirement of the EU, although the actual impact of this is not clear. The methods and level of consultation vary strongly. Some administrations simply go through the consultation exercise for the sake of fulfilling formal criteria and end up designing the strategy by themselves, while others make a clear effort to find a consensus among local partners. Administrations in charge of preparing programmes often consider the stakeholder consultation as a nuisance rather than a constructive exercise. For member states with strong traditions of top-down governance, the learning process of performing correct stakeholder consultations takes time, as it implies some profound cultural changes. Initially, consultation is often confused with information and meetings are set up as formal presentations with little interaction.

What is clear is that policies directed at entrepreneurship and R&D need the close collaboration of stakeholders to generate effective programmes. Venture capital funds, for instance, are usually managed and disbursed by private financial institutions. Similarly, some ESF funds are managed by NGO's, independent agencies and Community-Based Organisations. Structural funds have integrated Public Private Partnership (PPP) principles in many areas such innovation, information, and exchange of knowledge, using networks such as the Innovating Regions in Europe network or the Innovation Relay Centres to stimulate research.

Regions are also encouraged to utilise demanded participatory approaches to develop innovation policies (*e.g.* Regional Innovation Strategies or RIS). These are particularly important in member countries where national coherent strategies are

absent or weak, *e.g.* in the new members and even in associated countries, where RIS-NAC (Regional Innovation Strategies – Newly Associated Countries) are also called for and supported.

Other examples of evolutions of the regional policy to foster endogenous growth include the utilisation of the European Investment Fund (EIF) to support the creation of SMEs with start-up and seed capital disbursed through financial institutions or the introduction of the eEurope Action Plan which ensures modern online public services and develops the infrastructure required for widespread availability of broadband access, with programmes that make public administrations accessible to citizens by electronic means.

As shown in this section, the adaptation of regional policies and regional funds to capture endogenous growth is currently taking place. It is the member states that hold the key to the success or failure of revisited regional policies, mainly depending on local planning and implementing capacities.

A new endogenous development approach to rural development. In the specific area of rural development policy, the endogenous development approach is still more a statement of intention than a reality. Only a fraction of funds is not directed to farming practices and, within this fraction, limited support is geared to farm diversification, which could be a way to tap the endogenous growth potential of regions (*e.g.* through the development of rural tourism). Even if farm modernisation is an important element for the development of rural areas, it is not the only one, and it is not sufficient.

The endogenous development potential of rural areas has gradually been mobilised through integrated and bottom-up approaches, first embodied in the LEADER programme and, later on, in other programmes. Italy was an interesting laboratory for these different approaches, but it was not the only one (Mantino, 2006). Apart from LEADER, it is worth mentioning other modalities used in Italy to promote integrated rural development, in particular:

- Integrated Territorial Projects (ITPs);
- Territorial Pacts (TPs);
- Rural Districts (RDs).

The first two approaches derive essentially from the EU policy framework and they started to be implemented in the 1990s, *i.e.* relatively recently with regard to the Italian experience. LEADER programmes were introduced at the end of the 1980s (LEADER I) in the context of the second reform of the Structural Funds, and were re-proposed in the 1994–99 period (LEADER II) and in the last programming period (2000–2006) (LEADER). Territorial Pacts also have a strong national specificity within the European panorama, both in terms of financial resources and methodology. Integrated Territorial Projects were introduced in the last programming phase (2000–2006) of the European

Structural Funds, both in the less developed regions (Objective 1) and in regions with restructuring processes (Objective 2). Rural Districts are a very recent creation in the Italian policy framework. Their importance is negligible in terms of resources and there is no concrete implementation to report apart from an experimental case in Tuscany.

LEADER programmes are based on integrated development strategies for rural areas, drafted and implemented by rural communities in self-determined territorial areas, i.e. areas that do not necessarily correspond to official regional borders and may even cross national boundaries. LEADER programmes, although limited in funding, are undoubtedly the best illustration in the EU of the possibility of bottom-up approaches to rural development.

LEADER uses a combination of approaches to induce endogenous development, including:

- An area-based approach: specific territories with a potential for developing an integrated development approach based on shared identities and vision are targeted;
- A bottom-up approach: this allows the participation of all interested parties;
- A partnership approach: Local Action Groups (LAGs) are formed by individuals or local organisations to design rural development measures at local level;
- Innovation: the main objective of LEADER is to encourage the exploration of new methods to promote development at local level;

- Networking and transnational cooperation with other LEADER groups;

Decentralisation of management and financing: member states can allocate a general grant to the local partnership for self-management under specific rules.

So far, evaluations of LEADER programmes have been rather positive (ÖIR, 2003, 2006). According to ÖIR evaluations, apart from the considerable increase in employment that can apparently be attributed to LEADER, the programme also helped identify the factors which influence the development of rural areas. The horizontal involvement of different actors in rural areas also induced a positive impact on rural inhabitants who were not direct beneficiaries. It encouraged their voluntary participation in many initiatives launched under the programme. It was observed that the local partnerships created under LEADER outlived the implementation period, which indicated an important contribution to institution building.

The strategic planning, preparation and implementation are considered difficult but generate innovative strategies for development and can be widened to encourage cooperation within rural areas or between rural and urban areas.

Apart from the ÖIR evaluations of LEADER, individual evaluations are slightly less enthusiastic on the impact of the programme (Esparcia Perez, 2000; Osti 2000), mainly because the quantification of the impact of LEADER has often not been performed very seriously and because many objectives of the programme were vague to start with.

Box 2. The Importance of LEADER in Spain

The LEADER programme was particularly important in Spain because it introduced the notion of rural development to the country. A holistic integrated approach to rural development involving local actors was entirely new to the country, therefore LEADER had a very important impact (Esparcia Perez, 2000).

The success of the programme itself has been mixed. The main positive aspect was to introduce the notion of a development programme directly addressing the social and economic deprivation of lagging rural areas. LEADER introduced a territorial approach to development using endogenous development principles. It also induced the Spanish authorities to support other lagging rural areas with national resources (the PRODER programmes).

Genuine local participation was slow to emerge, as local public authorities and political groups and lobbies tended to take over the process (Barke and Newton, 1997). However, this is gradually improving, with the involvement of more varied local actors and associations.

The LEADER programme and its clone programme PRODER have clearly had an impact on

employment and development in the regions, even if this impact is variable and difficult to quantify. To all appearances, LEADER has created a new institutional framework, including new community governance structures which generated actions for their development within and beyond the programmes, even though their capacity to be innovative has apparently been limited. This participation and cooperation at local level have produced tangible effects and are used by other regions as examples to follow, with or without public support.

In the mid-term evaluation of the 2000–2006 period (IDOM, 2004, for the Basque LEADER programmes or CARM, 2003, for the Murcia region), evaluators tend to consider that LEADER programmes have improved the situation of rural areas, for example by offering new services to the population. However, the limited funding and the lack of quantifiable impact make evaluations difficult to perform. Another remark of the evaluators is that there is a strong focus on rural tourism in Spanish LEADER or PRODER areas, with a risk that the demand for such activities is overestimated. Innovative development opportunities do not seem to be fully experimented.

With a decentralised system, performance is bound to vary considerably between regions. The quality of planning and implementation at the local level eventually drives results. However, there is a general agreement on the positive impact of LEADER on institutions. For several countries, especially Mediterranean countries, LEADER has created new forms of governance and collaboration in rural areas, which has certainly built their capacity to improve their own socio-economic situation.

LEADER has also improved the capacity of local actors to coordinate EU funds from other sources, such as other rural development funds. It means that the actual scope and financial intervention of LEADER goes beyond the programme itself. Nevertheless, the ÖIR evaluation (2003) found that the complementarity of LEADER with other rural development funds could still be improved in many areas.

In many cases, LEADER has induced member states to expand the method to other rural areas not covered by the programme, with their national financial sources. These include the PRODER programme in Spain, POMO

in Finland, the *Regionen Aktiv* programme in Germany and the *Contrat Territorial d'Exploitation* in France.

As mentioned in Box 2, PRODER was the response of the Spanish government to expand the coverage of the programme to other rural areas. Finland had a National Rural Policy Committee prior to LEADER. The Committee decided to expand the first small LEADER programme through a national program (POMO). In fact, Finland already had in place a democratic civil society system in villages that was well suited to LEADER approaches. Soon, the POMO-LEADER system covered one third of all rural areas. Where LEADER was not active, POMO would finance similar actions. Like Finland, Germany finances a clone of the LEADER approach through the *Regionen Aktiv* programme. This is still a pilot programme, initiated in 2005. Through integrated rural development plans, the national programme and LEADER are linked and coordinated. In France, the *Contrat Territorial d'Exploitation* is not a horizontal programme. It is a rural development programme targeted at the farm community to promote better farm practices, environmental protection and diversification.

Impact and Lessons Learned from the EU's Endogenous Approach to Regional and Rural Development

Convergence, strategy and performance.

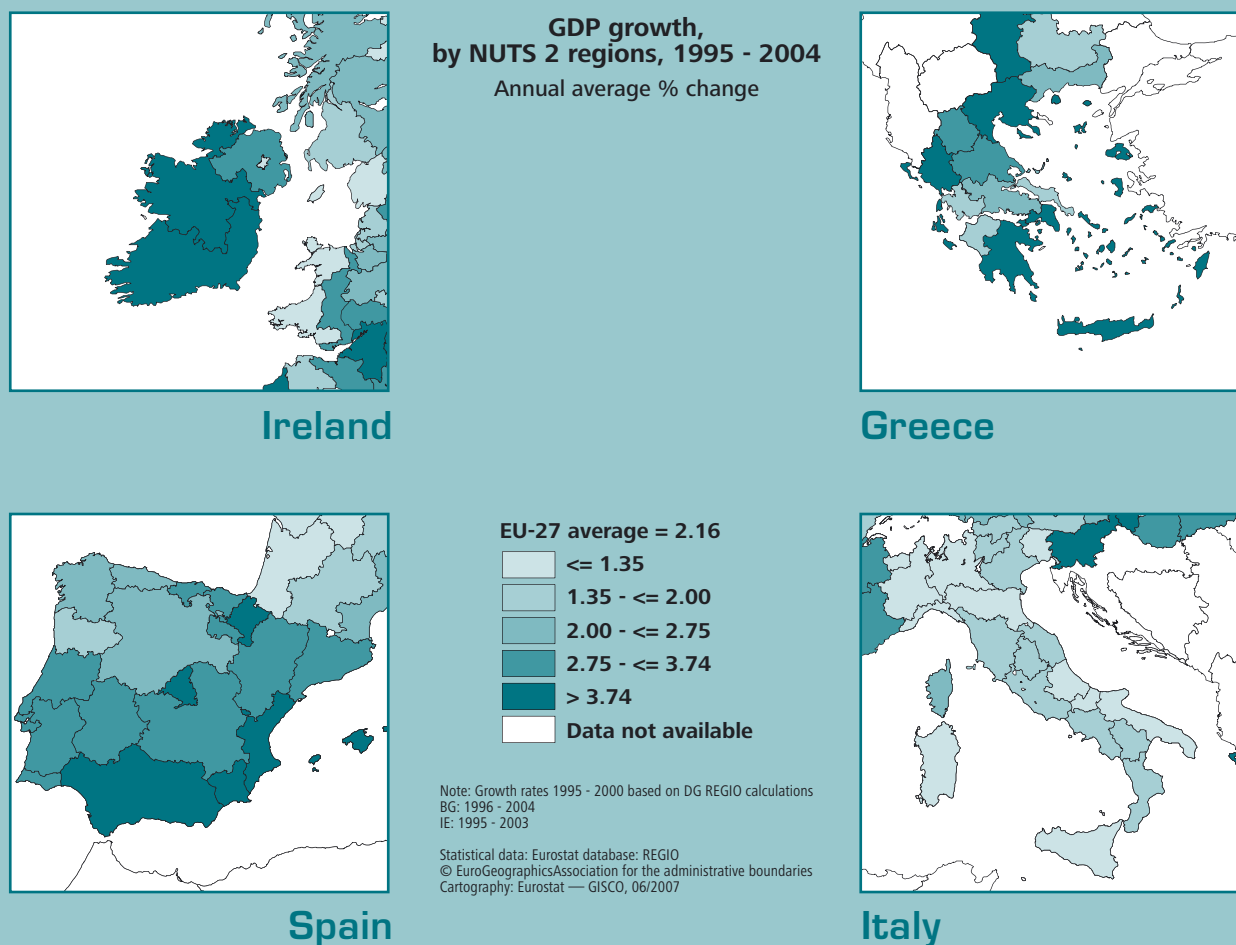
In the minds of the European Commission evaluators (European Commission, 2004, 2007), there is little doubt that the economic revival of important cities in poorer member states—such as Madrid or Lisbon—is due to the EU's regional policy and to the endogenous development that this policy has nurtured. Employment generation in regions that have received EU support tends to be seen as being a result of that support.

Overall, the impact of the EU's efforts in the area of regional growth generation has been mixed. Some cohesion countries and regions have been able to catch up quickly, while others are still lagging behind. In either case, it is difficult to isolate the role of structural funds. Studies tend to confirm that EU funds have mobilised

investment in excess of a base scenario without EU support, but the actual influence on the growth rates is controversial (de la Fuente, 2002; Bradley *et al.*, 2004).

The process of integration has been positive for poorer member states. This process, combined with a strategic development approach that encourages endogenous development, can benefit regions considerably. Where strategies have been well developed, there seem to be some clear, positive results. On the other hand, in regions where strategic planning has been deficient, results are not encouraging. As mentioned by Leonardi (1995), the southern regions of Italy are an example of poor planning and the situation in these regions has not significantly improved.

Figure 1. Average GDP Growth in Selected European Convergence Regions



Source: Eurostat statistical yearbook 2007

The cohesion policy was expected to even out regional disparities in the EU. The third cohesion report (European Commission, 2004) indicates that some convergence among EU member states has occurred, owing to the so-called “beta convergence” or the observed inverse relationship between GDP per capita and growth, which allows poorer countries to catch up (Barro and Sala-i-Martin, 1991; 1992).

Independent studies¹⁰ confirm this trend, but the impact in the 1994–1999 and 2000–2006 programming periods was weaker than during the 1989–1994 programming period, which somehow qualifies the conclusions of the studies. In addition, while GDP convergence between countries took place, this was not the case between regions within countries. This trend, combined with the observed slowing down of growth, can generate skepticism about the merits of regional policy. Against this, it is possible to argue that the 1990s saw several global economic crises, originating from Russia and Asian markets. Regional policy may have cushioned the weakest EU regions from decline, which also has its merits. Finally, it is actually difficult to make a judgment on the base case scenario.

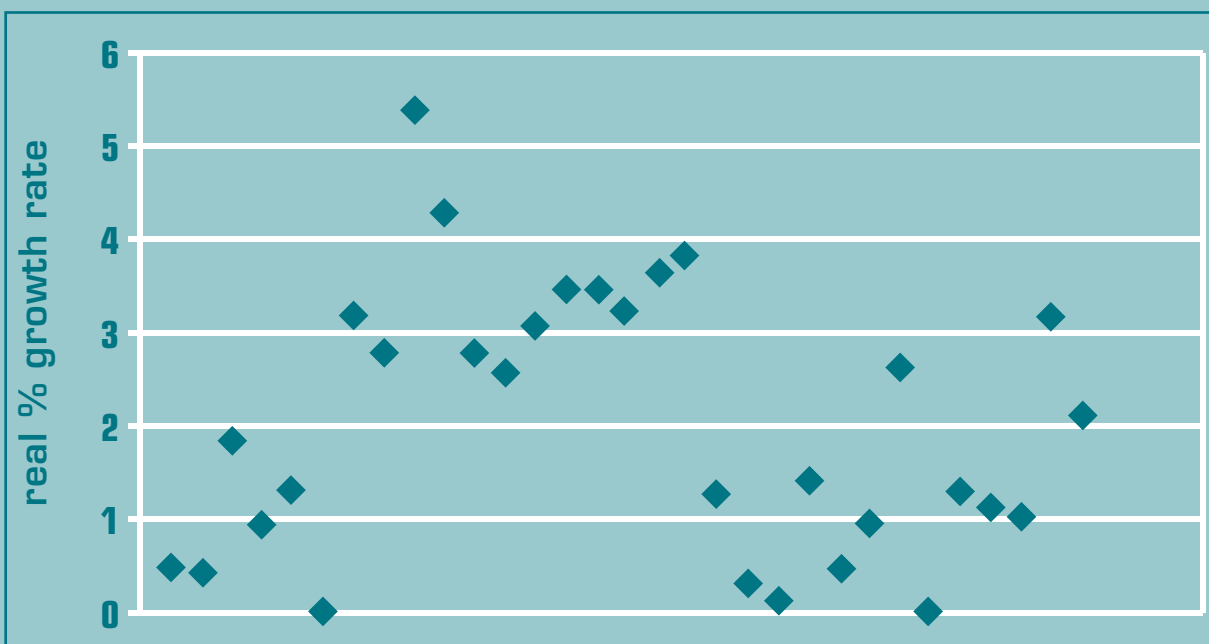
Another element worth remembering is that many investments, especially in infrastructure, suffer from decreasing marginal returns, especially if the local economies do not have the appropriate capacity to reap their benefits. Once basic investments, with rapid returns, are completed in a region, every additional investment tends to require a longer maturity to bring about benefits. Some more complex investments, such as investments in the education system, may not show

significant results during the time span of a single financial period, but may be crucial for the future.

The latest reforms in the cohesion policy, calling for a redirection of funds towards actions in line with the Lisbon Agenda, reflect the awareness of the EU that infrastructure investments have decreasing marginal returns. In this regard, the earmarking of cohesion funds for competitiveness-oriented investments—which is now required—makes sense.

Despite all possible weaknesses of regional policies, it is interesting to note that structural funds have most likely had positive effects on regional economic development. Plotting real GDP growth rates for all Objective 1 regions (see Box 3) during the 2001–2004 period shows that all these regions have seen their GDP per capita increase, with two or three rare exceptions where real GDP has been stagnant. No Objective 1 region has seen its GDP per capita decline (on average over the period). This is probably an indication that the regional policy approach of the EU generally works; otherwise one would expect the economic situation to worsen in regions which are lagging behind. Regional policy planning and investment has probably cushioned decline where it loomed. The support provided by the EU to this process—through its regional policy and multi-annual programming approach—is probably an important factor in explaining this result, even if such a statement is difficult to back up (Núñez Ferrer J., 2007). It is worth noting, however, that all Italian regions are in the group of weakest performers, confirming Leonardi’s findings a decade later.

Box 3. Average GDP per Capita Growth Rates, all Objective 1 Regions, 2001 to 2004



Source: Núñez Ferrer, 2007, p.30, data derived from Eurostat. Each dot represents an Objective1 region.

¹⁰ For an overview see Canaleta, Pasqual Arzoz and Rapún Garáte (2002)

The role of subsidiarity. One of the main weaknesses of the policy is at the same time one of its greatest strengths: that planning and implementation processes depend heavily on national and regional authorities, which are in the best position to define appropriate strategies to tap into their endogenous growth potential. The commitment of the administration of member states to the success and quality of interventions is therefore of paramount importance.

The subsidiarity principle clearly calls for the preparation of development plans at the regional and national level, which puts the keys to success very much in the hands of beneficiary regions and countries. This tactic has encouraged the development of better multi-annual, strategic planning mechanisms and important administrative reforms in member states. Even if not perfect, these changes have been healthy. The learning element intrinsic in the preparation of strategic documents and programmes should not be underestimated. These tasks induce changes in the attitude of public administration towards the economy, forcing them to become more proactive. Even in wealthier member states, the existence of regional funds has promoted the emancipation of regions from central government, enabling them to develop strategies of their own, often better tuned to regional needs. The importance of this process—even in traditionally centralised countries like France—has been documented by Cole (2003). Apart from the important influence of the regions themselves, approaches vary considerably between countries.

France has a tradition of central planning, aimed at ensuring that all citizens in the country are offered the same rights and opportunities. Standardisation was the norm and development strategies were generally imposed across the country with a similar pattern, while social policies were supposed to tackle regional differences. The idea of differential development strategies designed by regional actors was a radical change for this country. It implied that citizens in different areas would be affected by different policies. While plans are drawn regionally, central government representatives—through the figure of the *prefect* (present at different levels of regional government)—have to give their approval and have a strong influence on the contents. Strategies in Spain or Germany, which have highly autonomous regions, are firmly in the hands of regional authorities. In the UK, each state (England, Scotland, Wales and Northern Ireland) has different approaches. England uses public regional agencies under the control of the central government (today the Department for Business, Enterprise and Regulatory Reform), which are given the mandate to design the strategies and implement them.

Some regions have created proactive structures to promote Private-Public Partnerships (PPPs). In Spain, the region of Valencia has been singled out for the success of its approach. The administration actively designs innovative ideas for the private sector and seeks the

participation of private entrepreneurs, who are invited to assist in the design of the programmes. The region has been very successful at attracting innovation funds and at implementing novel schemes such as a *biofuels for public transportation* programme based on recycled oils. The region has seen rapid growth and is no longer in the group of Objective 1 (convergence) regions in the present programming period.

The involvement of the civil society is important. Although EU regional funds are disbursed according to public procurement procedures, they are eventually used and sometimes administered by private companies, banks, CSOs, NGOs, research centres and individuals. To ensure fund absorption, civil society has to understand the wider objectives of the funds and participate in achieving the wider goals of the programmes. Many countries—in particular those with a centralised culture and limited practice of civil society engagement—struggle to design and implement good programmes. Many countries have made efforts to set up administrative structures to run the funds, but have neglected the involvement of civil society, which has in turn limited the quality of implementation. It is recognised that even the best administration cannot implement a successful regional policy programme if it does not involve those who will eventually apply for funding and turn initial objectives into reality.

Another important factor of success is the establishment of good selection procedures to disburse funds, based on simple and clear public procurement rules. This is necessary to make sure that the most promising projects receive funding.

In the area of rural development, the integration as a mainstream policy of the pilot programme LEADER demonstrates that the EU is now aware that integrated local approaches are more effective than sectoral subsidies/support to generate endogenous rural development growth.

Some important lessons can be drawn from the past experiences of the EU in the area of regional and rural policy:

- Endogenous growth is better achieved if regional and local actors take ownership of the strategy.
- The administrative capacity and commitment of local and national administrations in the development of the strategy is fundamental.
- Policy coherence with wider fiscal and labour market policies is key.
- Funds should be concentrated in areas in need and should finance investments that would otherwise not have been undertaken.
- Focusing support on regional urban centres to develop economic hubs is important; these urban centres can then be linked to surrounding areas and generate spillover effects.

- Bottom-up approaches to local and regional development that include consultation with civil society, combined with the proactive attitude of the (local/regional/national) administration, can lead to ground-breaking initiatives and positive results.
- Regional funds should be awarded through open calls for tenders and clear procurement procedures, to ensure the best possible selection of projects. To achieve this, civil society needs to be involved at all stages, from strategic planning to implementation.
- Many low-cost coordination projects, fostering collaboration and networking, often boost innovation.
- Infrastructure investments have marginal returns. Beyond the completion of basic infrastructures, a strong focus on education, training and R&D is very important to sustain growth in the long term.

Specific features of the LEADER programme, and other integrated rural development initiatives that contributed to its success, are listed below.

- While mainstream rural policies support ordinary structural investments in rural areas—in particular investments in agricultural holdings, integrated rural

development programmes focus on innovation/knowledge/research.

- Integrated rural development initiatives are implemented within well-defined territorial boundaries—normally neither too large nor too small—which allow adequate public financial endowment for collective needs.
- They integrate different policy instruments and cater to the needs of different sectors, without neglecting agriculture – which remains at the core of most rural economies.
- They involve local actors through more frequent formal and informal partnerships.
- Funds are managed in a decentralised way. Decisions at the implementation phase are taken in the context of local partnerships rather than by central (regional or national) administrations.
- They produce two very important positive side-effects, often underestimated in evaluations: improved capacity in policy design and improved administrative and management capacity (both at the national and local levels), and new cohesive governance structures.

Bibliography

- Aghion and Howitt (1998), *Endogenous Growth Theory*, MIT Press.
- Barke M. and Newton M. (1997), 'The EU LEADER initiative and Endogenous Rural Development: the Application of the Programme in Two Rural Areas of Andalusia, Southern Spain', *Journal of Rural Studies*, Volume 13, No. 3. pp. 319–341.
- Barro, R. and Sala-i-Martin, X. (1991) 'Convergence Across States and Regions', *Brooking Papers of Economic Activity* 1: 107–82.
- Barro, R. and Sala-i-Martin, X. (1992) 'Convergence', *Journal of Political Economy* 100(2): 223–51.
- Behrens P. and M. Smyrl (1999), 'A conflict of rationalities: EU regional policy and the Single Market', *Journal of European Public Policy*, Volume 6, No. 3, pp. 419–35
- Bradley J., E. Morgenroth and G. Untiedt (2004), "Macro-regional evaluation of the Structural Funds using the HERMIN modelling framework", Paper presented at the Conference "Institutions and Policies for the new Europe", Portoroz-Koper, Slovenia, 17–19 June.
- CARM (2003), 'Iniciativa LEADER en la region de Murcia', Informe de evaluación intermedia 2003, Murcia, Diciembre 2003.
- Canaleta C.G., Pascual Arroz P. and Rapún Gárate M. (2002), 'Structural Change, Infrastructure and Convergence in the Regions of the European Union', *European Urban and Regional Studies* 2002, Volume 9, pp. 115–135.
- Cole, A. (2003), "Beyond Exceptionalism? Changing regional and local governance in France", in J. Ruane, J. Todd and A. Mandeville (eds), *Europe's Old States in the New World Order: The politics of transition in Britain, France and Spain*, Dublin: University College of Dublin Press.
- Commission of the European Communities (1964) *Rapports du Groupe d'Experts sur La Politique Régionale dans la CEE*, Brussels.
- De la Fuente, A. (2002), *The Effect of Structural Fund Spending on the Spanish Regions: An Assessment of the 1994–99 Objective 1 CSF*, Centre for Economic and Policy Research (CEPR) Discussion Paper No. 3673, CEPR, London.
- Esparcia Pérez, J. (2000), 'The LEADER Programme and the rise of rural development in Spain', *Sociologia Ruralis*, Vlume 40, Number 2, pp. 200–207.
- European Commission (1969), 'Memorandum on the reform of agriculture in the European Economic Community', in *Bulletin of the European Communities*. 1969, No Supplement 1/1969, pp. 9–46.
- European Commission (2006), 'EU rural development monitoring data – Synthesis report for 2001–2003', SEC (2006) 508.
- European Commission (1988), 'The future of rural society', Commission communication transmitted to the Council and to the European Parliament, 29 July 1988, COM (88) 501.
- European Commission (2004), 'A new partnership for cohesion, convergence, competitiveness, cooperation', Third report on economic and social cohesion, European Commission, Office for Official Publications of the European Communities, Luxembourg.
- European Commission (2006), 'EU rural development monitoring data – Synthesis report for 2001–2003', SEC (2006) 508.
- European Commission (2007), 'Growing Regions, growing Europe', Fourth report on economic and social cohesion, European Commission, Office for Official Publications of the European Communities, Luxembourg.
- Fujita N. (2007), 'Myrdal's Theory of Cumulative Causation', *Evolutionary and Institutional Economics Review*, Volume 3(2), pp. 275–283.
- Gross, D. and Micossi, S. (2005), "A Better Budget for the European Union – More Value for Money, More Money for Value", Centre for European Policy Studies (CEPS) Policy Brief No. 66 (www.ceps.be).
- IDOM (2003), 'Informe de evaluación intermedia del Programa Operativo LEADER+ de la CAPV en el período 2000–2006', Departamento de Agricultura y Pesca
- Gobierno Vasco, Diciembre 2003.
- Kaldor, N. (1966) 'Causes of the Slow Rate of Economic Growth of the UK', An Inaugural Lecture. Cambridge: Cambridge University Press. (Reprinted in F. Targeti and A.P. Thirlwall (eds.): *The Essential Kaldor*, Gerald Duckworth & Co., London, 1989).
- Krugman, P and A.J. Venables (1990) 'Integration and the Competitiveness of the Peripheral Industry', in C. Bliss and J Braga De Macedo (Eds), *Unity with Diversity in the European Economy: the Community's Southern Frontier*, Cambridge University Press: Cambridge.
- Krugman, Paul R. (1991a). 'Increasing returns and economic geography'. *Journal of Political Economy* 99: 483–499.
- Krugman, Paul R. (1991b). 'Geography and Trade'. Cambridge: MIT Press.
- Leonardi, R. (1995), *Convergence, Cohesion and Integration in the European Union*, New York: St Martin's Press.
- Leonardi, R. and C. Paraskevopoulos (1996), 'Social capital and learning networks: Making sense of Subsidiarity in European Regional Policy', Paper presented at the European Congress ETH Zurich, Switzerland, 26–30 August 1996.
- Mantino F. (2005), 'Rural Development in Europe, Approaches and Future Perspectives' in OECD: *New Approaches to Rural Policy*, Lessons from around the World, OECD, Paris.
- Mantino F. (2006): Integrated Rural Development Programmes and Projects: An Assessment of the Italian Case, paper presented at the FAO Workshop on "Innovative experiences for rural development in the Latin America and Caribbean Region", Rome, 9–11 October.
- Mantino F. (forthcoming): Lo sviluppo rurale in Europa: teorie e politiche, Edagricole-Sole24ore, Milano.
- Martin R. (1998), *Regional Policy in the European Union*, CEPS, Brussels.
- Martin P. (2002), 'Public policies and economic geography', in

Baldwin, R., Forslid, R., Martin, P., et al, *Economic Geography and public policy*, Princeton University Press.

Martin P. (2005), 'The Geography of inequalities in Europe', *Swedish Economic Policy Review*. Volume 12, pp. 83–108.

Myrdal, G. (1957) '*Economic Theory and Under-Developed Regions*', London: Gerald Duckworth & Co.

Núñez Ferrer, J. (2007), '*The EU Budget, The UK Rebate and the CAP – Phasing them both out?*', Task Force Report, CEPS, Brussels.

OECD (1996), '*Territorial Indicators of Employment – Focusing on Rural Development*', OECD, Paris.

OECD (2001), '*OECD Territorial Outlook – Territorial economy*', OECD, Paris.

OECD (2003a), '*Farm Household Income: Issues and Policy Responses*', OECD, Paris.

OECD (2003b), '*The Future of Rural Policy – from Sectoral to Place Based Policies in Rural Areas*', OECD, Paris.

OECD (2005), '*New Approaches to Rural Policy, Lessons from around the World*', OECD, Paris.

OECD (2006a), '*Economic Survey of Ireland*', OECD, Paris.

OECD (2006b), '*The New Rural Paradigm: Policies and Governance*', OECD, Paris.

ÖIR (2003), 'Ex-post evaluation of the Community Initiative LEADER II', Final Report for the European Commission, December 2003 / ANr. A 2703.10.

ÖIR (2006), 'Synthesis of mid-term evaluations of Leader + programmes', Final report for the European Commission, November 2006 / ANr. A 2936.10 (100026).

Osti G. (2000), 'LEADER and Partnerships: The case of Italy', *Sociologia Ruralis* Vol. 40, No. 2, April 2000, pp. 172–180.

Romer P. M. (1990), 'The Problem of Development: A Conference of the Institute for the Study of Free Enterprise Systems', *The Journal of Political Economy*, Vol. 98, No. 5, Part 2, October 1990, pp. S71–S102

Sapir, A., P. Aghion, G. Bertola, M. Hellwig, J. Pisani-Ferry, D. Rosati, J. Viñals and H. Wallace (2003), '*An agenda for a growing Europe: Making the EU economic system deliver*', Report of an independent High-Level Study Group established on the initiative of the President of the European Commission, Brussels, July.

Tarschys, D. (2007), 'Agenda 2014: A Zero-Base Approach', European Policy Analysis, SIEPS, October 2007.

Cover Photos

Photo 1

© Serban Enache | Dreamstime.com

Photo 2

© Claudio Giovanni Colombo | Dreamstime.com

Photo 3

© Erzetic | Dreamstime.com

Photo 4

© Marek Slusarczyk | Dreamstime.com

Photo 5

© Fritz Langmann | Dreamstime.com