

STRUCTURAL FUNDS IN THE FUNCTION OF REDUCING REGIONAL DISPARITIES

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Abstract

EU structural funds are available to EU member states that have the need for additional investments in a balanced and sustainable economic and social development. Structural Funds are in function of EU Cohesion Policy, which aims at achieving economic and social cohesion as well as harmonious development of the European Union. The role of structural funds are financial support of projects which will help in reducing the gap between developed and less developed parts of the EU, and promote the overall competitiveness of the European society and economy. Regional differences within countries are increasing, creating an entirely lag in the development of certain regions. EU funds are therefore a key for reducing these differences by co-financing development project which will contribute to greater stability and growth. Entering the European Union, Croatia will have on its disposal allocated funds from the EU Cohesion Policy. In this paper, it will be presented the attitude of the experts for EU funding about the importance of EU funds for reducing a regional disparities within the EU countries. Research will include perception survey on the sample of the 69 project consultants in Croatia. The aim of the research is to emphasize the importance of preparing development projects and achieving a satisfactory level of regional development as well as providing guidelines for easier absorption of available EU funds.

JEL Classification: R11, R58

Keywords: Cohesion Policy, Structural Funds, Regional Disparity, Regional Development

1. Introduction

The current process of globalization is generating unbalanced out-comes, both between and within countries. Wealth is being created, but too many countries and people are not sharing in its benefits (Stiglitz, 2006, p. 73). Widening international inequality (divergence) coexists with greater similarity in growth patterns within regions (convergence). Capabilities, attitudes, social institutions and economic potential differ across regions and explain persistent differences in economic performance which, if unchecked, perpetuate the global asymmetries (Ocampo & Vos, 2008, p. 81). The EU regional policy seeks to reduce structural disparities between EU regions, foster balanced development throughout the EU and promote real equal opportunities for all. Based on the concepts of solidarity and economic and social cohesion, it achieves this in practical terms by means of a variety of financing operations, principally through the Structural Funds and the Cohesion Fund. Regional policy aims to reduce the significant economic, social and territorial disparities that still exist between Europe's regions.

2. Regional development in European surroundings

Although there are differences between the regional policy of the European Union and national regional policy, regional policy of the European Union has enabled identification of the regional dimension of the national institutions, thus making the region a kind of joint institutional reference point, despite the fact that a common European concept of "region" still does not exist (Mirić, 2009, p. 19-26). Regional policy aims at promoting the conditions for sustained growth in the European area, by helping weaker economies to fill the gap with the rest of the EU. Developing infrastructure network, supporting enterprises, investing in education, research and innovation activities as well as in environmental protection programmes, are all examples of regional policy initiatives (Busillo et al, 2004).

2.1. Differences between regions in the EU and Croatia

Regional problems faced by the European Union are related to inherited differences in the level of income, the rate of GDP and employment, which by its very nature causes economic inequalities between regions within the European Union. Regional Policy conducts state that wants to reduce its interference socio-economic

differences between individual areas to accelerate the overall progress of the country (Bilas et al, 2011, p. 289-309). According to GDP per capita, the most developed regions are in the urban areas of London, Brussels and Hamburg. Luxembourg is the richest country, and about seven times wealthier than the poorest countries, like Romania and Bulgaria. The objective of regional policy is to reduce these differences. The best example of Ireland shows that it is possible. When Ireland became a member of the EU, its GDP was 64% lower than the EU average, and today is among the highest in the Union (Škreb, 2009, p. 103-105).

EU has 27 member state, 270 regions and 500 million people. According to conducted research in 2011, there are very big differences between the poorest and wealthiest regions; Luxemburg = 274 % BDP pc EU27, Bulgaria = 45% BDP pc EU27, Croatia = 61% BDP pc EU27 (Eurostat, 2011).

Graph 1. Median of the equivalent household income in Croatia and in the EU countries (in PPS)



Source: Source: UNDP, 2007

Material well-being and standard of living depend, overall, on the material resources that are managed by individuals and households. As it is difficult to calculate the total wealth of a household, material well-being is mostly measured through the level of available income. For comparison with the countries of the EU, household income has been converted into an equivalent income measured in PPS (Purchasing Power Standard). Since the EQLS does not collect comprehensive and detailed estimates of the various components of income, as does the 'Household Budget Survey', it is probable that income defined this way in Croatia (and in

EU countries) might to some extent be underestimated. However, it is possible to compare household income between countries because the same methodology was used to gather the data. Compared to the EU countries and the candidate countries at the time and based on the equivalent median of household income, Croatia is located in the lower end of the distribution. Countries that are located at the lowest end of the distribution joined the EU at the beginning of 2007 (Bulgaria and Romania), whereas Luxembourg, Denmark and Belgium are located at the highest end of the distribution.

2.2. Regional development agencies as an engine of regional development

RDAs are considered as a means to provide regional development within the framework of a new regional development. These associations are central administrative and regional strategic establishments where the decisions and the policies about the applications of regional development are made by the inhabitants of the region in a participant manner. The RDAs determine the general development problems, grasp the opportunities and solutions and support the projects that provide those solutions (Kantarci, 2010, p. 42). RDAs are also concerned with the classification of regional development tools within regional, national, supra-national level and provision of regional coordination. RDAs are involved in monitoring the developments beyond the borders of their own and support regional dynamics by transferring these developments to regional stakeholders (Emini & Görün, 2010, p. 124). The Regional Development Agencies have purpose for local development and we can also call them Local Economic Development Agencies. The main idea of the Local Economic Development Agency is to promote economic development within its territory by helping to re-establish normal conditions for economic growth and job creation, strengthening local economic and administrative capabilities and promoting local participation (Puljiz, 2003, p. 31).

3. Funds for regional development

Regional policy - or Cohesion policy - is one of the key axes of EU integration, together with single market and monetary union. Its objectives are anchored in Article 174 of the Treaty on the Functioning of the European Union (ex Article 158 TEC), which states that: "In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion.

3.1. Availability of EU funds

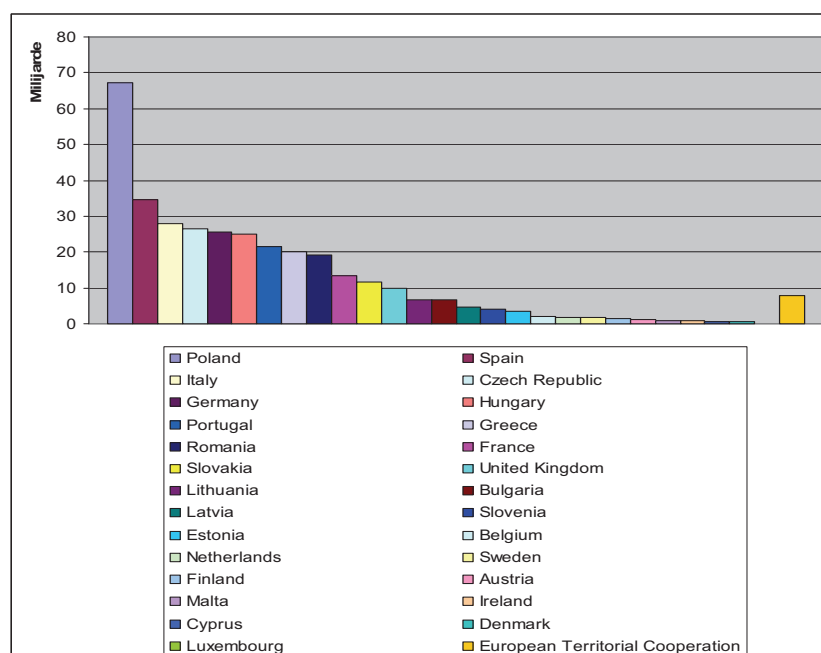
The fundamental principle of regional policy is a financial solidarity, manifested in directing funds through structural and cohesion funds.

Table 1. Financial allocation in EU funds 2007-2013. in billion EUR

EU Fund	Allocation
European Fund for Regional Development (EFRD)	201
European Social Fund (ESF)	76
Cohesion Fund (CF)	70
Total	347

Source: European Commission, 2012

Graph 2. Financial allocation of EU funds to member state 2007-2013.



Source: European Commission, 2012

Graph 2 shows a financial allocation for each EU member state under the Operational Plan for the period from 2007-2013. It also includes the European territorial cooperation. The graph shows the allocation of funds from the European Regional Development Fund, the Cohesion Fund and the European Social Fund.

In the period from 2014-2020, the member states will be made available EUR 376 billion through the following funds: The European Regional Development Fund (ERDF); The European Social Fund (ESF); Cohesion Fund (CF); The European Agricultural Fund for Rural Development (EARDF); The European Fund for Marine and Fisheries (EMFF).

3.2. Utilization of EU funds

We have three categories of capacities crucial for absorption and use of EU funds. Administrative capacity is primarily related to the ability of stakeholders individually, but even more on the ability of the system as a whole, to perform tasks related to the preparation and implementation of all planned and delegated procedures that are related to EU funds. Financial capacity refers to the ability of stakeholders and systems to fully settle the financial procedures. Macroeconomic capacity refers to the limit, by which a country is limited in the absorption power in Structural Funds.

Table 2. Contracted and paid aid from EU funds for the countries of Central and Eastern Europe in billion EUR

	Available budget 2007-2013	Contracted budget 2007-2010	Paid aid 2007-2010	Contracted percentage (%)	Paid percentage (%)
Bulgaria	8.0	3.0	0.8	37	10
Czech Republic	31.0	17.2	8.1	55	26
Estonia	4.1	2.5	0.9	60	21
Hungary	29.3	15.0	4.8	51	16
Latvia	5.0	3.7	1.5	76	30
Lithuania	7.3	5.0	2.1	68	29
Poland	82.1	43.5	13.1	53	16
Romania	23.3	10.4	1.5	45	7
Slovakia	1.4	7.6	2.3	57	17
Slovenia	4.8	2.3	1.3	48	27
Total CEE	208.2	110.2	36.3	53	17

Source: KPMG, 2011.

The table reveals that in the period from 2007-2010, the most contracted funds was from Poland, and Slovenia has the least, but if you look at the funds disbursed, also the first place is Poland, while the last place to Bulgaria. Most of the funds from the EU are used by Poland. However, looking at the percentage of use, the highest

4. Importance of Structural Funds in reducing regional disparities

4.1. Methods of research

4.2. Results and discussion

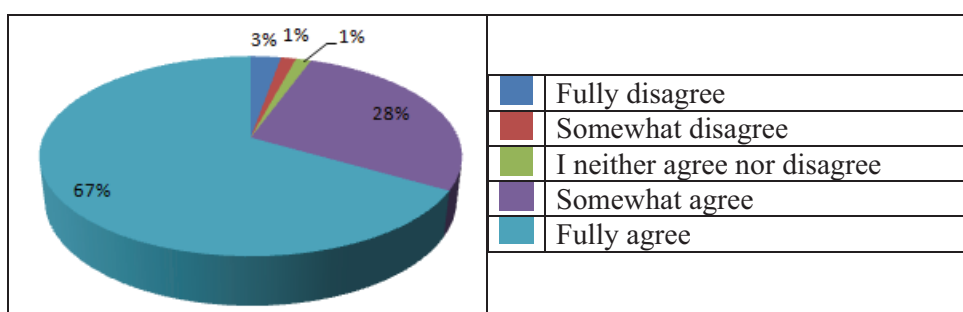
A 3D pie chart illustrating the distribution of responses for the statement 'How much do you agree with the statement?'. The chart is divided into five segments: 'Fully agree' (66%, light blue), 'Somewhat agree' (23%, purple), 'I neither agree nor disagree' (4%, green), 'Somewhat disagree' (3%, red), and 'Fully disagree' (4%, dark blue). A legend to the right of the chart maps these colors to their respective response categories.

4%	Fully disagree
3%	Somewhat disagree
4%	I neither agree nor disagree
23%	Somewhat agree
66%	Fully agree

Source: Authors research

There is a need for increased education to prepare projects for EU funds. Only a few responders have perception that the level of education in project preparation is on the satisfactory level, while 89% are sure that more education is crucial.

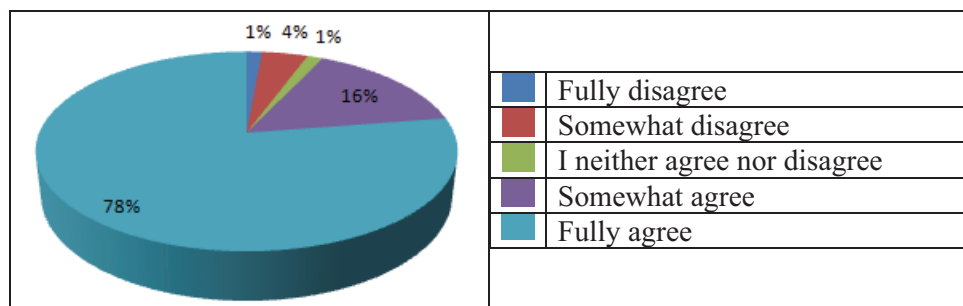
Graph 4. There is a need to increase the financial capacity of potential applicants from EU funds



Source: Authors research

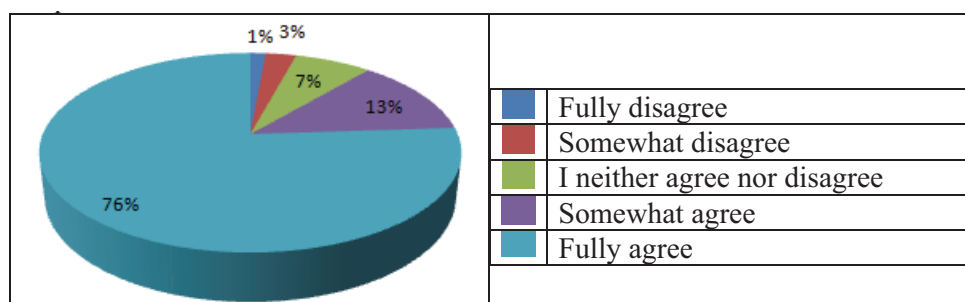
There is a need to increase the financial capacity of potential applicants from EU funds. Only a few responders have perception that the level of financial capacities of potential applicants is on the satisfactory level, while 95% don't.

Graph 5. There is a need to increase the number of prepared projects for EU funds



Source: Authors research

There is a need to increase the number of prepared projects for EU funds. Only a few responders have perception that the number of prepared projects is on the satisfactory level, while 94% don't.

Graph 6. There is a need to increase the rate of contracted funds from EU funds

Source: Authors research

There is a need to increase the rate of contracted funds from EU funds. Only a few responders have perception that the rate of contracted funds from the EU is on the satisfactory level, while 89% don't.

5. Conclusion

Key role in the regional development has a regional authority that defines regional policy and guidelines for future development in specific country. The consequences of poor regional policy are differences within the country are inequality and uneven development. This leads to the development of only the big cities or regions and investments in already developed regions. The role of the state is with different measures have influence on combating the negative impacts and prevent uneven regional development. Education of people, more good projects led us to raising absorption of EU funds and investing in development of less developed countries and regions. We should strengthen knowledge and experience for project preparation those involved in regional development on national, regional and local level.

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