

THE IMPACT OF REGIONAL AND COHESION POLICY ON THE ECONOMIC DEVELOPMENT OF THE EU

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Abstract

As the global financial and economic crisis hit the European Union, no country was left unharmed. To this day, the Member States share the burden of excessive foreign debt, inflation, budget deficit, high unemployment levels, shaken stability of the currency, and many more. Multiple responses were introduced to these damaging effects, including adopting changes to the use of the Globalisation Adjustment Fund, enabling a Financial Stability Mechanism for the Euro zone and introducing a number of micro-financing instruments, particularly to support SMEs. Nevertheless, these have all been short-term actions, which will not suffice to ensure a long-term, sustainable economic growth of the European economies and maintain the EU's position among global political and economic leaders.

European leaders have adopted the *Europe 2020* strategy for economic growth, which addresses all key-areas of economic growth - from innovations to employment and environment. Yet, the greatest challenge to this goal remains regional cohesion - namely, full economic and social convergence of the regions and Member States of the European Union.

After thirty six years of a common Regional policy and over twelve years since the creation of the Cohesion policy, the remaining economic and social disparities within the Union are striking. What is more, the distribution of cohesion financing, similarly to the Common Agricultural policy direct payments, continues to portray a significant weakness in the common objectives of fair competition and solidarity among Member States.

Within the next multiannual financial framework of 2014-2020, Regional and Cohesion policy of the EU will have a fundamental importance in eliminating existing disparities among regions, providing for a sustainable economic growth, increasing the EU's competitiveness and implementing the ambitious *Europe 2020* goals. It can therefore be considered as a key element in Europe's economic recovery.

This paper provides an analytical examination of the goals, strategies and current trends in the Regional and Cohesion policy as a tool of economic growth of the European Union. It provides a brief insight into the history, objectives and functioning of the policy in order to continue with analysis of its results and provide recommendations for improvement of the policy and increase its positive impact on the EU's economic development.

Materials, statistics, working documents and analysis provided by EU and national institutions, as well as independent analysts have been used in the production of this paper. Results and conclusion are presented in a descriptive, logically constructive manner of synthesis.

More specifically, the paper concludes by stating that in order to achieve full convergence and be able to ensure sustainable economic recovery and growth throughout the EU, greater flexibility and sovereignty need to be employed in political decision-making and regulations on allocation of funds. To raise the positive effects on Member States' economies, equality must be ensured to attain the Union's strategic goals without harming the weakest Member States' economies and competitiveness. It is therefore essential that the convergence objective be formulated as the leading goal of the Regional and Cohesion policy. Policies under the upcoming multiannual financial framework must be results-oriented.

The EU's economic recovery, hence, also its Regional and Cohesion policy and allocation of funds, have to reflect the practice of fair competition, solidarity and equality. Only then will the European Union be able to fulfil its political and economic ambitions.

Key words: EU, Regional policy, Cohesion, Europe 2020, recovery.

Introduction

The European Union (EU) is one of the richest parts of the world, comprising 27 Member States (MS), 493 million citizens, a single market and – in a large part of it – a single currency. Yet, great economic and social disparities continue to exist within the Union's 271 regions. For illustration – the EU's wealthiest country Luxembourg has a GDP *per capita* of EUR 76.588 (2009 data), nearly ten times more than in the poorest and newest EU MS Romania and Bulgaria, whose GDP *per capita* the same year was EUR 5468.28 and EUR 4683.03 respectively. (The World Bank, 2009)

The EU's Regional and Cohesion policy was created in order to stimulate economic and social integration of European regions and MS. This paper will analyse the relationship between the Regional policy goals and cohesion funding allocated to evaluate the results achieved and find key elements for a more efficient Regional policy of the EU. The central question of the article has therefore been how the Regional and Cohesion policy can be improved in order to provide tangible results and enhance convergence and economic development in the EU.

In order to answer the set question, the author has used

comparative analysis of data, statistics and academic analysis available, to evaluate whether the policy has contributed to its primary goal - reducing regional disparities in the EU - and can be implemented to achieve the EU's strategic goals for economic development and global competitiveness. Conclusions have been drawn based on the methodology of inductive reasoning.

Regional policy explained

Regional differences in the EU were first addressed in the 1957 Treaty of Rome. (Consolidated version of the 1957 EEC Treaty of Rome) Although the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund (EAGGF) already existed, the Regional policy was initiated only with the creation of the European Regional Development Fund (ERDF) in 1975, following the EU's first enlargement in 1973. (European Commission. Structural Funds 2007- 2013) The policy itself was eventually defined in the Single European Act in 1986, which provided guidelines to coordination of economic policies and the use of structural funds. In 1993, the Treaty of Maastricht initiated a major reform of the EU's structural funds, integrating all existing structural measures into an overall strategy, and creating the Cohesion Fund. (Treaty on European Union, 1992) It is after the second general reform of structural funds in 1999, (The Council of the European Union, 1999) that the Regional policy evolves into a wider Cohesion policy, as it is often referred to today. The final changes to the Regional policy were introduced by the Treaty of Lisbon, which defined the concept of territorial cohesion¹ (Treaty of Lisbon, Article 1-3(3) TEU) and adopted, among other, changes to the legislative procedure, giving the European Parliament (EP) legislative power in the Community's budget planning and adoption. (Treaty of Lisbon, Article 177 THEU)

The Treaty of Lisbon updated most of the provisions on the current multiannual financial perspective defined in the *Interinstitutional Agreement on budgetary discipline and sound financial management*. (Interinstitutional Agreement, 2006) It has thus had a fundamental effect on the budget of the Regional and Cohesion policy, which accounted for EUR 49.4 billion of the Community budget in 2010 and EUR 64.5 billion of the 2011 budget. (European Commission. EU Budget in detail. 2010) The extent of these changes was explicitly portrayed by the difficulties over the adoption of the EU budget for 2011.

Prior to the existing multiannual financing period, two objectives were set for the Regional policy for 2000-2006: Objective 1 on structural adjustment and convergence and Objective 2 on economic development of areas with structural problems.² Given the growing regional disparities after the last two EU enlargements in 2004 and 2007, as well as the insufficient financing of the policy (Staab A., 2008), its objectives were subsequently re-defined for the EU financial framework (FF) of 2007-2013. As defined in Article 174 of

the Treaty of Lisbon, those are convergence, competitiveness and employment, and European territorial cooperation.

The rationale behind the Regional policy's convergence objective is to create growth-enhancing conditions in the least developed MS and regions, in order to secure regional cohesion and thus increase Europe's competitiveness in the world. In the EU-27, this objective applied to MS with GDP *per capita* less than 75 % of the Community's average - a total of 18 countries, combining 84 regions and 154 million Europeans. (European Commission. Key objectives. 2010) Additionally, 16 more regions (16.4 million inhabitants) in the so-called "phasing-out" stage, where GDP *per capita* is slightly above the threshold of 75%, but below 90% of the Union's average, are also targeted by the objective of convergence through the ERDF and a budget of EUR 282.8 billion - 81.9 % of the total financing for the Cohesion policy for 2007-2013.³ The Cohesion fund, which provides financing under the convergence objective specifically for projects related to transport, infrastructure and environment, is reserved uniquely for MS with a GNP *per capita* of 90% of the EU's average. (The Council of the European Union, 2006)

In the EU-27, a total of 168 regions (314 million inhabitants) are eligible for funding under the objective for regional competitiveness and employment, which aims to strengthen the EU's global competitiveness and raise its employment levels. According to information provided by the European Commission (EC), a budget of EUR 55 billion (15.7% of the total Cohesion budget) is provided for the objective. (European Commission. Structural Funds 2007-2013)

Finally, the objective for European territorial cooperation aims to strengthen cross-border collaboration and support interregional exchange of experience.⁴ EUR 8.7 billion (2.4% of the Cohesion policy's budget for the current FF) have been made available for this objective, EUR 6.44 billion of those being concentrated for cross-border cooperation, EUR 1.83 billion for transnational and EUR 445 million for interregional cooperation. (Ibid)

Funding for each of these objectives is allocated through ERDF, which covers programmes involving general infrastructure, innovation, and investments, ESF, which pays for vocational training and employment assistance projects, and the Cohesion Fund that covers projects related to environment, development of renewable energy, transport and infrastructure. Provision of these funds is based on strict principles of additionality⁵, partnership⁶ and concentration⁷. An additional support instrument is the Solidarity fund, which provides financial support to MS or regions suffering from a

³ The funding is further divided as follows - EUR 199.3 billion for the Convergence regions, EUR 14 billion for the "phasing-out" regions, and EUR 69.5 billion for the Cohesion Fund, which covers the EU-15. (European Commission. Key objectives. 2010) A detailed explanation is offered by Staab A., 2008.

⁴ Population living in cross-border areas amounts up to 181.7 million (37.5 % of the total EU population). (European Commission. Structural Funds 2007-2013. 2010; Provisions and instruments of regional policy, 2010)

⁵ The funds must be used in addition to existing national initiatives.

⁶ All cohesion projects must be managed by the Commission, regions and national governments.

⁷ Funding must be allocated to programmes that comply with one of the principles of the Regional policy.

¹ It extends beyond economic and social cohesion, as it concentrates on development based on geographic and sectoral specificities, intends to strengthen the cooperation between territories and consistency in EU policies to make the most efficient use of territorial assets.

² Objective 1 on structural adjustment and convergence of European regions whose GDP *per capita* is less than 75% of the Union's average; Objective 2 - economic development of areas with structural problems, including crisis-hit areas and those in industrial decline.

major⁸ disaster. Alike others, under this instrument, the EC's support cannot exceed 50% of the funding. (The Council of the European Union, 2002) In practical terms, the Regional policy thus invests in real economy: of a budget of EUR 347 billion for the financing period of 2007-2013, EUR 250 billion have been allocated to invest in four priority areas, defined in the renewed Lisbon agenda for growth and jobs entitled *Europe 2020* (European Commission, 2010b), i.e. employment, business, infrastructure, energy and research and innovation. (Katsarova I., 2009)

The Regional policy - a success? Impact on economic development in the EU.

Economic theory shows that an intervention from outside can bring positive effects in the case of social exclusion taking place in the particular place, often due to failure of economic institutions or a lack of those. It is also clear that a concentration of consumers, workers and businesses in a defined area alongside formal and informal institutions – as in the case of the EU - has the potential to produce externalities and increasing returns to scale. (Barca, F. 2009; Farole, T., Rodríguez-Pose, A., Storper, M. 2009) In the EU, intervention can also be justified by the need for common management of the single market and common governance and political accountability system. Finally, from a governance point of view, the EU is also better equipped to tackle challenges of cross-border interdependence, management of common EU budget resources and above all – the common development goals.

Meanwhile, tendencies in economic development around the world – both in industrialised and developing countries – demonstrate a high concentration of resources and income in selected agglomerations: 40% of the global GDP is produced in 10% of the world's regions. In the EU, too, growth of metropolitan regions generally exceeds growth in rural regions. (OECD 2009; OECD 2006) From the economic perspective, this is an unhealthy trend – not only are a large number of areas lagging behind, the development in the exceeding ones is disturbed, as well, since economic growth and development also requires well-built networks, infrastructure, development elsewhere – in brief, strong regional cooperation, partners and contributors. (Barca, F. 2009) Development of selected agglomerations is thus endangering themselves as much as the economic growth of the entire area. What is more, analysis show that price increases, pollution, adverse effects on health, the environment and the quality of life, the rising costs of urban infrastructure, social tensions and high crime rate can all result from agglomeration and offset the social and economic benefits endangering healthy economic development of an area (Rodríguez-Pose, A., Storper, M. 2006), which in turn makes the economy particularly vulnerable to external trends and globalisation.

Given all the reasons mentioned above, it can be concluded that there is a convincing case for a strong Regional policy in the EU.

It is often claimed that the Regional and Cohesion policy has led to a considerable economic development, with Ireland, which rose from 64% of GDP *per capita* of the EU's average upon its accession in 1973 to 130% of the average in 2008,

⁸ A disaster being considered as “major” if it results in damage over 0.6% of GNI or if it affects the majority of a region's population to suffer from long-term economic and social problems.

generally quoted (Staab A., 2008) as the most pronounced example. On the other hand, Greece, which joined the EU in 1983 with a GDP *per capita* of 62% and in 2003, had still not developed to above 63% of the EU's average (Ibid), proves the rather opposite case. Indeed, much of the divide between the North and the South of the EU-15 and between the new and old MS has in fact increased, as evidenced by various authors.⁹ It should be noted, however, that the overall success of the policy is not that easily measured - it lacks specific, defined criteria to measure cohesion. Furthermore, economic progress is strongly affected by numerous external factors, such as the global economic and financial crisis, macro-economic policies, national wage levels, education, governance, structure of investments, etc. Hence, the lack of consensus on the effects of the policy among its analysts.

A comprehensive summary of how production in the recipient states is affected by cohesion expenditure programmes can be provided by the so-called ‘cumulative’ multiplier¹⁰. Results fall into three groups, based on a ranking by their size¹¹: High values (above 3.0), within which fall Ireland (4.0), Spain (3.3), Czech Republic (3.3) and Malta (3.1); Medium values (2.5 to 3.0) - Slovakia (2.8), Greece (2.8), Estonia (2.8), Portugal (2.6) and Poland (2.5); and Low values (below 2.5) - Lithuania (2.4), Hungary (2.4), Slovenia (2.2), Cyprus (2.2) and Latvia (1.9). (Bradley J., 2009)

Moreover, HERMIN simulations¹², widely used by the EC, reveal a sustained higher demand for donor country exports, even when the recipient states, succeeding in economic development, technically become better equipped to compete with the donor states. With increasing convergence, the balance between net donors and net beneficiaries should even out. In reality, however, the donor states, particularly Germany, France and Italy, which have a high trade exposure to the beneficiary states, continue to benefit from the increased demand for imports within the recipient states. According to HERMIN simulations, improvements on the supply side of manufacturing and market services are likely to maintain a higher rate of import from the larger, more developed donor states.

Economic and social inequality has various consequences – it can disrupt economic and labour relations and raise uncertainty and growing stress levels in the society. (Alesina, A., Perotti, R. 1996; Atkinson A.B., Cantillon, B. Marlier, E., Nolan, B. 2007)

The EC has recently reaffirmed its belief in a Regional policy targeting the weakest regions by GDP *per capita* and the MS, whose GNI *per capita* is lower than 90 % of the EU's average. (European Commission. 2010a) The proposal is to maintain the present system of intervening in all regions with concentration on those lagging behind, which is opposed by several critics (Barca F., 2009), including author of this paper, who believe that the so-called ‘rich’ EU MS can provide supplementary financial resources to regions where needed, since their national GDP *per capita* is above average and they have access to larger resources.

⁹ For further analysis, see Atkinson, A.B. 2008; Barca, F. 2009; Lorand, B. 2011; Lorand, B., Lukovics, M. 2010; Staab A., 2008

¹⁰ It is calculated by accumulating all previous increases in GDP that were attributable to the cohesion expenditure, divided by the magnitude of the accumulated cohesion expenditure, expressed as a share of GDP

¹¹ Using data from the Cohesion expenditure programme 2000-2006

¹² See Bradley J., 2009

The Regional policy should focus on disparities between countries rather than regions, with the convergence objective as its absolute priority. According to renationalisation critique (Barca F., 2009), the purpose of Cohesion is not financial redistribution and inefficiency and social exclusion can arise anywhere. It is claimed that the renationalisation argument therefore undermines the principle of solidarity. Such an argument, however, appears to be slightly far-fetched. Whilst the existing Regional policy benefits economic convergence, a number of its regulations do not comply with the economic and social realities of the EU-27.

One of the leading obstacles to fair competition and convergence within the EU is the net balance thinking among its MS, i.e. distinction between net donors¹³ and net beneficiaries¹⁴ of the EU budget, undisclosed to large levels by the EC's Consultation Report on EU budget. (European Commission, 2008b) Net balance thinking has created an inefficient system of double priorities – national and European, bearing a negative effect on the Regional policy, which has become torn between politics and policies. According to the latter, funding should be allocated to the most backward regions, calculated by GDP *per capita*. In politics, however, there is a fight for a “share for everyone” and support within the electorate. (Acemoglu, D., Johnson, S. and Robinson, J.A. 2005; Bachtler, J., Mendez, C., Wishdale, F. 2010; Staab A., 2008) Essentially, net balance thinking risks losing key principles in practice, as well as targeting the citizens' needs rather than the objectives of national governments and initiating reforms. A solution to the matter might be a shift in the political thinking about the Cohesion policy - namely, focusing on revenue-raising rather than spending.

The existing realities of distribution of cohesion funding form a leading obstacle to successful implementation of the EU's Regional policy. Several analysis (Lorand, B. 2011; Lorand, B., Lukovics, M. 2010) of the Regional policy have emphasised the slow economic success, as opposed to the continuously growing structural funding. As *Figure 1* below portrays, the new MS have continuously benefited less from the Regional policy than the EU-15. Some of it may be blamed on disadvantageous certain external factors; however, these numbers demonstrate a large underlying weakness within the Regional and Cohesion policy and the need to refocus it towards a results-based approach.

Another central issue in the debate is financial governance of the Regional and Cohesion policy. The EU Court of Auditors continues to account for unacceptably high levels of errors in allocation of finances under EU contracts, (Eiropas Revīzijas Palāta, 2009) reaffirming the leading position of the Regional policy as the source for the highest level of mistakes in the EU budget spending – 5%, the policy being valued as partially effective. Errors were discovered in 36% of payments under Cohesion projects. As the Court of Auditors have noted, most of these mistakes have been caused by wrongfully attributed and often gravely disregarded regulations of

¹³ The largest being Germany, which in 2007, paid into the EU budget EUR 164 billion, yet received back (through various funds and projects) only EUR 78 billion, France - paid in EUR 140 billion, received EUR 89 billion, and Italy, which paid in EUR 116 billion and received EUR 70 billion. (Open Europe, 2010)

¹⁴ Mostly the new MS like Latvia, which paid into the EU budget (2007 data) EUR 1.4 billion, but received EUR 6 billion, Bulgaria - EUR 2.3 billion versus EUR 12 billion received and Czech Republic - paid in EUR 9.2 billion and received EUR 31 billion. (Ibid)

public procurement. (Ibid, p.10) Clearly, the increasing administrative costs do not ensure higher efficiency. In fact, the report reveals that the EC MS are efficient to register faults, yet the system of informing the EC of the corrections applied is highly unsatisfactory. (Op.cit., p.11) In result, there is a lack of credible data of cancellation or retrieval of falsely executed payments, largely due to the multilevel governance managing the policy – the complex regulations, contracts and control levels of structural funding.

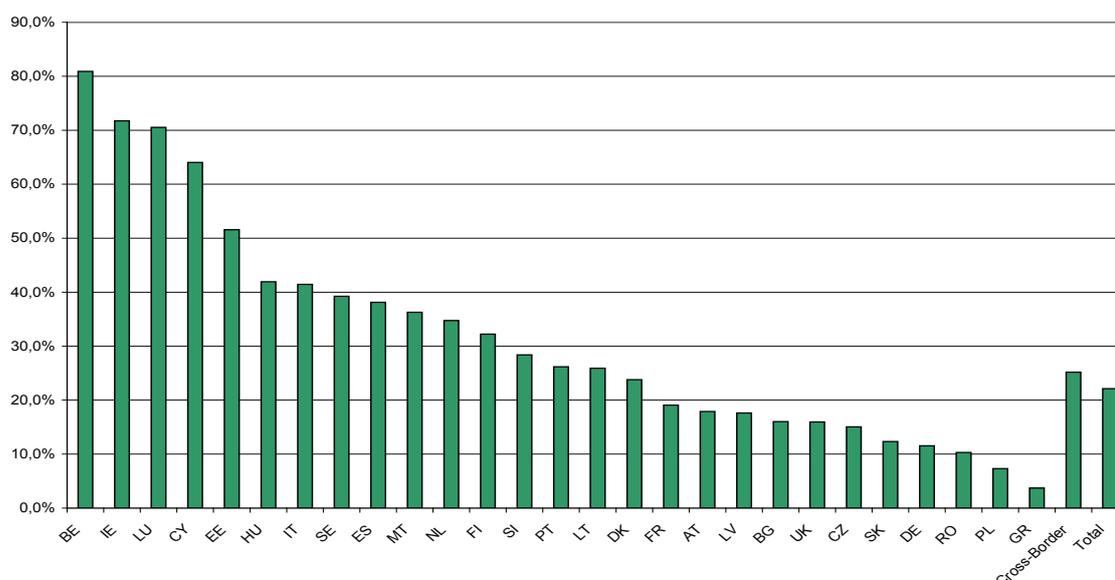
An annual system of error rates, by which transfers to MS are withheld if a threshold of payments is surpassed, might therefore be supported. This would however require an annual error limit and threshold of payments to be agreed upon by the MS, provided that the new system of check-ups does not present a supplementary financial or administrative burden. The EC has offered a similar proposition (European Commission, 2010b; European Commission, 2010c) - annual declarations accompanied by an independent audit opinion to be submitted by national authorities responsible for managing cohesion policy programmes. In such occasion, on a case-by-case, the EC should assess basis if not reimbursing national authorities until the corresponding EU contribution has been paid, would indeed accelerate payments of grants to beneficiaries and thus increase the incentive for a strong national control.

Finally, as a means of improving financial engineering, general financial support should be channelled to individual enterprises via financial engineering instruments, leaving grants for specifically targeted support schemes. The scope and scale of financial engineering instruments certainly needs to be broadened to encompass new EU development goals, which might be done by combining interest subsidies with loan capital and other repayable financing.

Given the weak connection in a number of cases between the funds obtained and structural disadvantages (Crescenzi, R., 2009; Lorand, B., 2010), the allocation of funding has not been accurate. An improved allocation of funding requires, first of all, removal of net balance thinking; and secondly, added-value approach with macro-economic calculations of both allocation of policy funding and measuring of results, and a simplified administrative procedure. It would also require defined core priorities and principles to raise the impact of the policy instruments.

Given the arguments above, setting a limited number of EU-wide core policy priorities (preferably up to five)¹⁵ could prove essential to maximising the economic potential of the Regional and Cohesion policy. The European economic recovery plan (European Commission, 2008a) first called for a targeted approach in areas of added-value to the EU, particularly, growth-enhancing policies, development of strategic infrastructure, safeguarding key skills and assets from being lost. (European Commission, 2010d) The differing ways in which EU structural funding is distributed and utilised in MS makes it increasingly difficult to shape a Cohesion policy acceptable to all MS. To tackle the problem, three principles are suggested for setting the core policy priorities: EU-wide relevance of the spending objectives, place-based approach in funding and verifiability (set targets can be clearly identified and measured). (Barca, F., 2009; Bachtler, J., Mendez, C., Wishlade, F., 2010)

¹⁵ F. Barca (2009) has suggested defining 3-4 core priorities that would receive 55-56% of the Regional and Cohesion policy funding.



Source: European Commission, 2011

Figure 1. Percentage of 2007-2013 Cohesion allocations contributing to sustainable growth, by Member States

Successful cohesion also requires re-evaluation of the co-financing levels from national budgets. Its objectives of convergence, competitiveness and employment are closely linked to the strategic development goals of the Lisbon Agenda and *Europe 2020*. The Regional policy will therefore have a significant role in the implementation of these strategies. It is therefore utmost important, to harmonize the Regional policy with other initiatives of the EU.

What is more, aside defined core priorities of EU-wide relevance, targeting global warming, energy security and efficiency, innovations and competitiveness, etc., in its application, the differing capacities of MS should not be ignored. The presently set percentage varying from 30-50% (European Commission, 2009) of required national assistance disregards possible financial difficulties of the MS. For instance, Latvia suffered the most damaging effects of the global financial crisis in the EU, its GDP falling to minus 18% in 2009. (Eurostat, 2011) Budget cuts left unharmed none of the national policies. Thus, providing extensive co-financing became impossible. In result, numerous projects previously co-funded by the EU Cohesion and Common Agricultural policies were impeded indeterminately (The Ministry of Agriculture, 2010a, 2010b, 2010c), leading to an even greater economic and social disparity compared to the rest of the EU.

Flexibility and innovative approach both in financial management and political decision-making are central to economic growth. (Acemoglu, D. 2009) This paper therefore suggests that MS should be able to choose their leading priorities, according to the European interest and national budget capacities, concluded in a Development and Investment Partnership Contracts signed by the EC and each MS, as proposed by the EC (European Commission, 2010d). The contract should be accompanied by an EC done *Implementation assessment* and regular *Report on policy implementation* conducted by the MS, which have been acknowledged as necessary in a recent World Bank report. (The World Bank, 2008) Such evaluations, concluded each 1-3 years, would also tackle the present inefficiency, whereby

- because payment claims are settled at the end of each multiannual financing period - during the first years, Member States are less concerned about the effectiveness of their control system. (Barca F., 2009; Eiropas Revīzijas Palāta, 2009; European Commission, 2010a; European Commission, 2010b) Moreover, it would concentrate the political decision-making on results and provide for regular feedback and improvements within a multiannual financial planning period.

It has been recognized that *the next generation of Cohesion programmes will need to encompass a greater thematic focus on green investment and capacity building, using technical assistance budgets. It will also require strong political motivation. Reports by the Court of Auditors and the European Commission have continuously accounted for lagging behind in results and lacking policy evaluation on the part of MS* (European Commission, 2006), rarely leading to change. *Incapacity to achieve full economic, territorial and social convergence of the EU MS would not only undermine the credibility of the policy, but also impede reaching Europe 2020 goals*, particularly, the EU becoming an innovative, green, resource-efficient, knowledge economy, highly competitive among the fast-growing world economies. A successful Regional and Cohesion policy will require mobilisation of all resources and coordination of policies, with greater involvement of local stakeholders.

Conclusions

It is clear that the remaining level of disparities within the EU is disproportionately high. The Regional policy has long intended to tackle the problem, and has been recognized as a key driver to competitiveness and economic development of both separate European regions and the EU as a whole. Yet, its results so far have been limited and efficiency remains questionable. Regional convergence is affected by a number of external conditions, which complicates a detailed and precise evaluation of results. A set of criteria should therefore be defined to ensure a more precise assessment of the Regional policy and thus provide possibility for convincing

improvement measures.

Furthermore, annual evaluation of funding expenditure has been suggested to tackle the problem of the high error rates within the EU's budgetary spending. This article more frequent declarations from the responsible national and regional authorities to be implemented in order to reduce the critical amount of mistakes in financial contracts, provided that they do not provide additional administrative and financial burden to either the EC or MS.

Analysis of the existing criteria, set priorities and results, if measured by GDP *per capita*, reveals that regional convergence must above all remain the main priority of the EU's Regional policy, in order to achieve full economic and social cohesion of its regions. To this respect, the current net balance thinking among Member States must be abandoned entirely.

All in all, data suggest that there has been positive development of the Regional policy, albeit unequal. Significant disparities among EU Member States and regions have remained, accelerated furthermore by the recent global financial and economic crisis. It has also been increasingly torn between the politics and policies of the decision-making. Nevertheless, Cohesion funding and the set targets of the Regional policy provide a significant potential. It has therefore been concluded that with a results-based and value-added approach, focusing on revenue-raising rather than spending, the Regional and Cohesion policy can prove to be a significant contributor to the economic development of the EU.

Equality, solidarity and fair competition are key elements to economic development. Those are also the founding principles of the EU's Cohesion policy and to achieving *Europe 2020* goals that aim to safeguard the Union's political and economic leadership in the world. The future Regional and Cohesion policy must simplify its approach and reflect upon these fundamental principles to achieve the maximum positive results.

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