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Road to European Regional policy: History, Achievements and Perspectives

International Seminar on best Practices of Regional
Development in Brazil and the EU

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Ministers, Ladies and gentlemen,

Let me first welcome your initiative to organise this international seminar on exchanges of good practices on regional development. I have brought with me my colleagues from the European Commission and the national experts from Member States which participate in this conference. They will give you a broad overview of the main challenges facing European regional policy and the best experiences and approaches to regional development which accumulated over the last years in the EU Member States.

I have come here on this special occasion with a strong message: we expect this regional policy dialogue between the EU and Brazil to become a tangible, visible and valuable example of our cooperation in the framework of our strategic partnership.

Today I would like to look at the regional policy in this order: starting with some history, followed by a quick look at what we achieved until now and than moving towards the perspectives and rationale of the policy in the

beginning of the 21st Century. Finally, I would try to specify those elements of the European regional policy which, in my view, could be most useful to Brazil.

So let us start from the very origins of the current article 158 of the European Community Treaty which states that “the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas”. Although the notion of EU regional policy can be traced back to the Treaty of Rome, it was not until 1975 that the small European Regional Development Fund was created.

In these early years, ERDF operations remained purely national, with little European or regional influence. A more genuine ‘European’ cohesion policy emerged when the Single European Act of 1986 introduced the notion of social and economic cohesion. Importantly, for achieving this objective, the Act deemed necessary "redressing regional imbalances" through regions "participating in economic development" and undergoing "structural adjustment".

I recall this wording because it defines in a nutshell three important aspects constituting the rationale of modern regional policy until today.

Firstly, the Single European Act - which laid the foundation for the creation of the Single Market - established the link between the level of economic development and the capacity of countries and regions to participate in European integration. The argument was that Single

Market produces winners and losers, as economic integration strengthens economic activity in the core area, at the expense of poorer regions. Hence Member States agreed the Single Market policies should be accompanied by development policy which would ensure the diffusion of the benefits of economic integration, acting as the "visible hand" of the EU fostering economic integration throughout its territory.

Secondly, the reference to region's participation in economic development calls the policy to bring unused regional resources into play. In other words, regional policy has a clear objective - it is not about redistribution; it is about mobilizing endogenous, local potential of development.

Finally, Single European Act is talking about the policy which shall foster structural adjustment. This means that the policy's focus is on long term change in the investment pattern and on overcoming structural barriers to development.

The landmark reforms of 1988, following the signing of Single European Act, doubled the budget of the regional policy. But while the financial dimension was – and still is - important, it was this rationale designed by the Single European Act that guided the shaping of regional policy into a fully fledged fiscal policy, with its own objectives and rules. These rules since then remain crucial for the policy's "mode d'emploi":

- Multi-annual **programming** based on analysis, strategic planning and evaluation instead of a project-based approach;

- **Strategic concentration** on a limited number of objectives related to development, with the focus on the least developed regions;
- **Integrated approach to development**, improving the overall impact of sectoral policies;
- And, finally, **partnership** involving national, sub-national and EU actors, in the design and implementation of programmes and thus ensuring a transparent policy responding to local needs.

What have we achieved with the regional policy until now?

Our recently published **Cohesion Report** shows that EU cohesion policy has played an important role in the convergence process. It shifted Member States' policies towards growth enhancing investments. It reduced social exclusion and poverty by providing skills for the knowledge economy and reinforcing labour market policies. It has improved administration and public governance, particularly at sub-national level. It encouraged better budgetary planning and strategic approach to development. And it contributed to more growth and jobs in the Member States.

Let me give you some figures. At the national level, Greece, Spain, Ireland and Portugal - the largest beneficiaries of cohesion policy in recent years - have achieved an impressive growth performance between 1994 and 2006. Between 1995 and 2005, Greece reduced the gap with the rest of EU-27, moving from 74% to reach 88% of the average in 2005. By the same year, Spain had moved from 91% to 102%, and Ireland reached 145% of the Union's average starting from

102%. In the same period, a GDP per head of a quarter of the lagging regions in the EU had risen above the 75% threshold.

As different **evaluations** show, cohesion policy has considerably contributed to GDP growth. For example, between 1989 and 1999 the additional growth impact of EU funding has been at 10% in Greece and 8.5% in Portugal. If we look at the 2007-2013 period, studies suggest that cohesion policy will add between 5 and 15% to GDP in most of the new Member States, on top of a baseline scenario without cohesion policy.

What is the rationale of regional policy today?

Today, cohesion policy could be represented as the leading edge of a system of multi-level governance in which supranational, national, regional and local governments engage in overarching networks across policies and territories. Principles such as partnership, transparency, subsidiarity, local democracy and integrated approach to development make an essential asset of development policies. They empower local people and help growth strategies by targeting local resources in a more efficient and effective way. They reinforce the co-operation between public and private sector – for example under the form of public-private partnerships.

Moreover, as new growth theories suggest, there is a role for "the territory" in the sense that rather than being an obstacle to the optimal allocation of economic activity it should be seen as a source of economic growth on its own. In other words if endogenous factors are put in the

centre of regional development policies they can stimulate "growth from below", leading to higher growth and productivity in the whole of the Union. In this respect, regional policy should therefore be seen as allocative policy, based on conditional grants and targeting local growth resources.

What are the challenges ahead of European Regions?

European regions, similarly to the Brazilian ones, develop in the world increasingly defined by global changes. This has an impact on the regional policy. While in the past regional development in the Union focused on internal changes, somewhat leaving dealing with external challenges to the national governments and Union policies, today regions cannot develop without thinking about the global market. Successful European regions are those which have managed to internationalize their economies and plug in into external world.

But the external world is exposing the European territory to numerous factors of change, such as accelerating globalisation, rising energy prices, stronger external immigration pressure or emerging climate change, while others are more indigenous in nature, such as population ageing or the struggle to promote competitiveness and to improve the living environment. The challenges do not care about national, institutional or policy borders and they impact directly on regional and local communities.

Many regions throughout the Union have strong concentration of economic activity in sectors where competition from emerging economies is high. These are regions which need diversify their

economic structure into new, growing sectors, and modernise existing activities to move up the value chain. There are 61 regions which have more than 3% of their total employment concentrated in vulnerable industries, such as textiles, audiovisual and ICT equipment or steel making. Regional cohesion programmes will support forward-looking strategies anticipating change to adapt the economic fabric in time.

Demographic changes also have a regional dimension. Europe's population is projected to start declining by around 2020. Between 2000 and 2005, the total population growth rate was 0.4% and 86% of that growth was due to migration. Already today, 85 regions of the Union - mainly in the new member states - are experiencing absolute population decline, and another 76 maintain population growth only thanks to migration. These trends will limit the scope for future employment growth.

There is also clear evidence that many regions throughout Europe will be increasingly confronted with the impact of climate change as well as with new challenges in terms of energy provision and energy efficiency. 7% of the Union's population live in areas at high risk of floods; on the other hand around 9% of the EU population lives in an area where there are over 120 days a year without rain. The combined impact of climate change will pose serious problems to quality of life, tourism and agriculture in some EU regions.

On the other hand, the need to improve energy efficiency and to reduce traditional energy dependency is an opportunity for European enterprises. Many of our new regional policy programmes support now to a higher extent the development of renewable and alternative

technologies - wind, solar, biomass - which can give the EU a leading edge and thus strengthen its competitive position.

Regions will also have to cope with the skills needed to remain competitive in a global, knowledge-based economy. Variations in education levels are more pronounced between regions than between countries: in the less developed regions of the EU-27 only 14% of population in working age had tertiary qualification against 25% in the more developed regions. To reach the Union's employment target of an employment rate of 70% another 20 million jobs are needed by 2010.

Is the European experience in regional policy relevant to Brazil?

It is tempting to reply to this question by evoking a number of similarities between Brazil and the Union. Indeed, the poorest EU regions with 10% of the population account for only 3.5% of EU's GDP, which corresponds precisely to the same share in the Brazilian GDP of the six poorest States, also with 10% of the population. Similarly, the ratio between the richest and the poorest State in Brazil is 1/9, very close to EU (1/7.6). Even the number of Brazilian States – 27 – corresponds to the number of EU Member States.

Of course, these similarities are not meaningless. The wide variations in terms of economic welfare in Europe are due to the fact that in the past the Union enlarged to poorer countries. As a result, unlike other developed economies such as Japan and US, the Union has accumulated significant experience in development policies targeting relatively poor, lagging regions, a lesson which might be useful to Brazil.

But I do not think that these similarities are decisive as I do not think that the primary function of the regional policy is to compensate for the regional differences in the level of economic development. In the global context the function of the regional policy is different – it should be perceived as a development policy with the objective of making the most of endogenous assets to economic development. And this is the experience we would like to share with our Brazilian friends.

Another thread to follow is the link between the regional policy and the integration. This, in my view, makes regional policy a suitable tool which may accompany increasing economic integration within the Brazilian market and, in the future, Mercosur. This is a sort of "NAFTA is a great thing but lacks regional policy" rationale.

European regional policy has also accumulated significant experience in leveraging private capital. There are two policy elements which are key to this approach and which our Brazilian friends might find interesting. Firstly, the policy fosters the wide use of PPP arrangements, involving private capital in large infrastructure projects but also in new areas, such as R&D or technology transfer. This brings into regional policy more market orientation and economic efficiency.

Secondly, we have launched recently a number of new financial instruments. They target different sections of the financial market, ranging from micro credit to venture capital and financing urban development. What these instruments have in common is combining regional policy grants with the capital coming from our partner financial institutions. In this way, the policy can multiply the amounts of the capital available and offer them to the regions in the form of revolving funds.

Yet another venue is the cooperation extending beyond national borders. Today European regional policy is fostering cooperation through 66 cross-border and trans-national programmes managed jointly across national frontiers. This can be one more area of mutual learning, taking into account the priority that Brazil gives to cross-border cooperation with neighbour countries through "Programa de Desenvolvimento da Faixa de Fronteira".

And, of course, there is an issue of common global challenges which in the future new challenges will redraw the regional map of Europe and Brazil. Let me give you just one example, that of asymmetric impact of climate change, which will result in more floods and droughts. Already today around 9% of European population lives in an area where there are over 4 months days a year without rain. This poses problems to regions dependent on tourism and agriculture. Here the Union could learn from the experience of Conviver programme which targets semi-arid regions in Brazil.

Ladies and gentlemen,

I mentioned only some examples of new themes for the co-operation between the Union and Brazil. I am convinced that by signing Memorandum of Understanding on regional policy we have created a framework for this co-operation, from which our regions and citizens will learn and benefit.

Thank you for listening. I am looking forward to your questions.

