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**Conference Paper**

## Europe 2020 And Cohesion Policy. Implications For Transition Regions. The Case Of Andalusia

52nd Congress of the European Regional Science Association: "Regions in Motion - Breaking the Path", 21-25 August 2012, Bratislava, Slovakia

**Provided in Cooperation with:**

European Regional Science Association (ERSA)

*Suggested Citation:* Muñoz, Francisco Yépez (2012) : Europe 2020 And Cohesion Policy. Implications For Transition Regions. The Case Of Andalusia, 52nd Congress of the European Regional Science Association: "Regions in Motion - Breaking the Path", 21-25 August 2012, Bratislava, Slovakia, European Regional Science Association (ERSA), Louvain-la-Neuve

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# **EUROPE 2020 AND COHESION POLICY. IMPLICATIONS FOR TRANSITION REGIONS. THE CASE OF ANDALUSIA.**

Francisco Yépez Muñoz

February 17, 2012

## **Abstract**

European Cohesion Policy has traditionally been considered as a useful tool to advance in the economic integration of the European Union by helping less developed regions in their convergence process with more developed ones.

Nowadays European Cohesion Policy and Structural Funds are one of the main instruments of intervention of EU authorities, so it is being used more and more in relation with other european policies and not only for its original purpose of balancing economic differences among regions.

The aim of this paper is to analyze, through the particular case of Andalusia, the impact of the strategy Europe 2020 and its translation to the new Regulations of Cohesion Policy proposed by the European Commission on October 6, 2011, in regions traditionally beneficiaries of European Cohesion Policy. This analysis should be understood in the context of one of the most serious economic crisis in recent years, which has particularly affected some of priority regions for Cohesion Policy, as it is the case of Andalusia.

**JEL-Classification:** H54, R58

**Keywords:** Cohesion Policy, Regional Economics, Regional Policy, Europe 2020

## **Current circumstances of European Cohesion Policy**

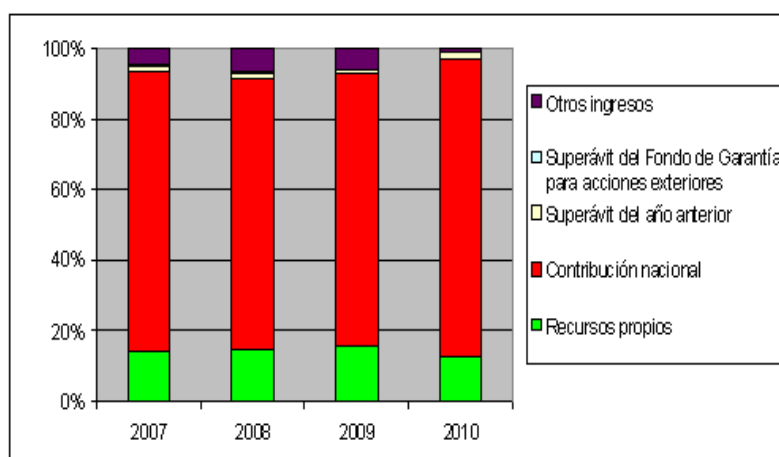
European Cohesion Policy is the set of actions aimed at promoting a harmonious and balanced development of the whole EU, strengthening the smooth functioning of the Union from the economic point of view. To do this, it is primarily focused on balancing the development of different territories, seeking to reduce disparities between regions by increasing the growth of less developed regions. Due to its characteristics it is often called Regional Policy, and is studied by the branch of economics focused on the regional and local development and the uneven geographical distribution of wealth.

Nowadays Cohesion Policy of the EU has its legal basis in Article 174 of the Treaty on the Functioning of the European Union, which says *“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. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross- border and mountain region.”*

European Cohesion Policy has been gaining relevance in the European budget since the creation of the ERDF in 1975, to become nowadays one of the main instruments of EU intervention. Its endowment in the 2007-2013 financial framework is close to 36% of the total EU budget. As a natural consequence, debates and studies regarding its efficiency are also increasing (Barca, 2009).

On the other hand, the current economic crisis implies a significant drop in the EU own resources, which mean that member states must complete the EU budget with endowments increasingly high in relation to their gross national income. Figure 1 shows the evolution of the origin of resources within the European budget from 2007 to 2010.

**Figure 1: Impact of the crisis in the composition of the European budget**



*Source: European Commission ([http://ec.europa.eu/budget/index\\_en.cfm](http://ec.europa.eu/budget/index_en.cfm))*

We can see how the use of transfers from Member States according to their gross national income has taken a major jump in 2010, from 77.1% to 84.2% of the budget. This issue is particularly controversial in the current circumstances, taking into account that many countries have had difficulties to meet their sovereign debt, with the consequent need of bailouts by the EU and the imposition of budget constraints through limiting the deficit<sup>1</sup>.

Given this situation the European Commission is aware that Cohesion Policy will have very high demands on the programming period 2014-2020. In a context of important budget constraints for Member States, the cost of the contribution to EU budget implies a greater focus on its implementation. Cohesion policy, as it the main instrument of EU intervention and it involves economic transfers from some regions to others, will be permanently in the center of the debate about the effectiveness of EU budget. Therefore, one of the major concerns of the European Commission in the design of Cohesion Policy for the period 2014-2020 is to link it as far as possible to the objectives of the Europe 2020 strategy, in order to obtain a greater legitimacy by contributing to the common goals of the EU and not only to decrease differences between regions.

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<sup>1</sup> This has led to the commitment agreed on December 9, 2011, by 26 EU Member States, to introduce in their respective constitutions a limit to the deficit, trying to improve governance and economic stability of Europe.

## **Andalusia: Traditional beneficiary and community support framework 2007-2013.**

Andalusia, a peripheral region of the European Union in the south of Spain, counts on January 1, 2011, with 8,424,102 inhabitants according to the Spanish National Statistics Institute. Its population, together with its 87,597 square kilometers of territory, makes Andalusia one of the largest regions of Europe in population and size, exceeding some EU countries.

In 1985, a year before becoming part of the European Economic Community, Andalusia had a GDP per capita equal to 52.92% of average GDP per capita through the Europe of fifteen<sup>2</sup>. This disadvantage in the economic level, coupled with its large population, has resulted in the fact that Andalusia has been a major beneficiary of EU funding in the field of Cohesion Policy. Figure 2 shows the allocation of funds in the field of Cohesion Policy received by Andalusia since Spain joined European Communities:

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<sup>2</sup> It refers to the fifteen countries that were part of the European Union in 1995: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, U.K.

**Figure 2: European Funds received by Andalusia 1986-2013**

	1986-88	1989-93	1994-99	2000-06	2007-13	Total 1986-2013	Annual rate 1986-2013
<b>Managed by Andalusian Regional Government</b>							
ERDF	167,4	652,0	1.692,0	2.796,8	3.384,3	8.692,5	310,4
ESF	48,9	122,0	325,4	971,4	1.155,8	2.623,5	93,7
EAGGF	0,0	273,0	403,7	693,2	1.881,7	3.251,6	116,1
FIFG	0,0	0,0	65,6	214,7	176,7	457,0	16,3
European Commission Initiatives	0,0	106,5	232,9	261,3	57,6	658,3	23,5
Cohesion Fund	0,0	0,0	214,3	332,2	100,0	646,5	23,1
Total	216,3	1.153,5	2.933,9	5.269,6	6.756,1	16.329,4	583,1
<b>Managed by Spanish National Government</b>							
ERDF	508,5	1.008,2	3.109,4	3.630,6	6.066,8	14.323,5	511,6
ESF	267,5	188,6	597,9	0,0	1.738,0	2.792,0	99,7
EAGGF	69,0	422,2	741,6	426,1	0,0	1.658,9	59,2
FIFG	26,7	115,1	95,2	0,0	0,0	237,0	8,5
Spanish ERDF Operational Programme	0,0	0,0	0,0	3.564,6	0,0	3.564,6	127,3
European Commission Initiatives	78,9	41,4	107,7	160,6	57,3	445,9	15,9
Cohesion Fund	0,0	98,4	835,4	600,0	100,0	1.633,8	58,4
Total	950,6	1.873,9	5.487,2	8.381,9	7.962,1	24.655,7	880,6
<b>Total Cohesion Policy</b>	<b>1.166,9</b>	<b>3.027,4</b>	<b>8.421,1</b>	<b>13.651,5</b>	<b>14.718,2</b>	<b>40.985,1</b>	<b>1.463,7</b>

(\*) Current millions of euros

Source: Directorate General for European Funds, Government of Andalusia, 2008, p.3

In figure 2 we can observe the endowment for structural measures, including the ERDF, the European Social Fund (hereinafter ESF), the share corresponding to guidance of the European Agricultural Guidance and Guarantee Fund<sup>3</sup> (hereinafter EAGGF), the Financial Instrument for Fisheries Guidance<sup>4</sup> (hereinafter FIFG), European Commission Initiatives and the Cohesion Fund.

Throughout the entire period since 1985 Andalusia has followed a gradual process of economic convergence with the EU average, which can be seen in figure 3:

**Figure 3: Evolution of Andalusian GDP per capita compare to average GDP per capita of the Europe of fifteen (period 1985-2004)**

1985	1990	1995	2000	2004
52,92	57,45	58,27	65,58	71,27

*Source: Piedrafita, Steinberg and Torreblanca, 2006, p.21, with data from the Economic Development of Regions and Provinces Spanish in the Twentieth Century, Fundación BBVA, Funcas and authors.*

In general, we can say that Andalusia's economy has experienced a significant phenomenon of growth and convergence with Europe. The intensity of this phenomenon has varied according to different phases, being the most positive period the one which extends from 1995 to the crisis of 2007. Taking into account this process of reducing the gap with the EU average, Andalusia only has remained a priority region in the field of European Cohesion Policy in the period 2007-2013 because with the baseline data used to define the financial framework the GDP per capita in Andalusia had not yet reached 75% of EU average<sup>5</sup>.

On the other hand, the crisis of 2007 has had a tremendous impact on Andalusia's process of economic convergence with Europe, resulting in a severe economic downturn

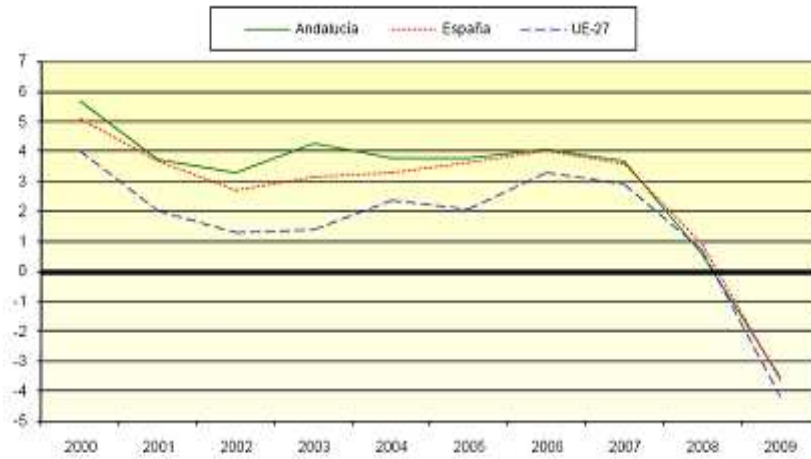
<sup>3</sup> It has become an independent fund in the framework 2007-2013, the European Agricultural Fund for Rural Development.

<sup>4</sup> It has been replaced by the European Fisheries Fund in the framework 2007-2013.

<sup>5</sup> Article 5 of Regulation n.1082/2006 of 11 July 2006, established that could be benefited by assistance from the Structural Funds under Objective 'Convergence' regions corresponding to level 2 of the Nomenclature of Territorial Statistical Units, within the meaning of Regulation (EC) N 1059/2003, whose GDP per capita measured in purchasing power parities and calculated on the basis of Community figures for 2000-2002, less than 75% of the average of the Europe of Twenty (EU-25) during the same period.

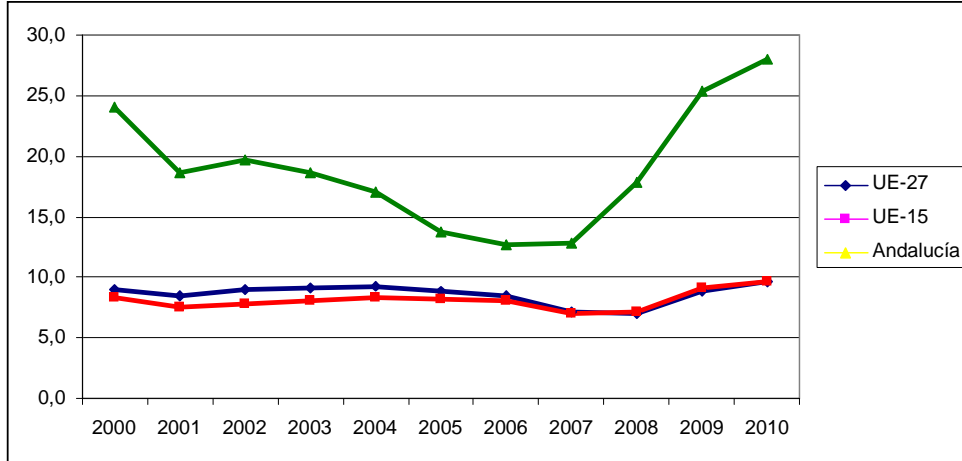
and specially in a significantly lower resilience to crisis that the European average in terms of GDP and in terms of job creation, as we can see in figure 4 and figure 5.

**Figure 4: GDP annual growth rate in Europe, Spain and Andalusia (2000-2009)**



*Source: Performance report 2009 of the ERDF Operational Programme for Andalusia 2007-2013. Data from the Regional Institute of Statistics of Andalusia, the National Institute of Statistics of Spain and Eurostat.*

**Figure 5. Unemployment rate in Europe and Andalusia**



*Source: Eurostat.*

Considering all the circumstances mentioned above, the region of Andalusia faces significant challenges in the present and immediate future. On the one hand, due to the progression of its income per capita and the reduction of the EU average GDP per cápita because of the enlargement to East, Andalusia faces a reduction of European funds expected to be received in the field of Cohesion Policy. On the other hand, it must face



this situation in a context of weakness due to the tremendous impact of the crisis of 2007 in its economic situation.

## **Cohesion Policy and Europe 2020**

To meet its present and future challenges, the EU adopted in 2010 the strategy Europe 2020, which replaces the failed Lisbon Strategy, whose objectives had become completely outdated and unattainable, especially after the impact of 2007 crisis on the European economy. Europe 2020 is a strategic document adopted by the European Commission on 3 March, 2010, and ratified by the European Council on 26 March, 2010, which will influence in the present and immediate future all actions, decisions and investments made by EU institutions.

The prospects for future Cohesion Policy are closely linked to Europe 2020, since Cohesion Policy is the main instrument of intervention in hands of EU authorities to try to boost the achievement of its objectives. It should also be noted that it is not independent of other EU policies but, on the contrary, it is heavily intertwined with some of them such as Social and Employment Policy, Research and Development and Innovation Policy, Common Agricultural Policy, Competition Policy, and so on. Therefore, the adoption of a global strategy such as Europe 2020 affects the Cohesion Policy from many different perspectives.

A reading of the priorities and objectives of Europe 2020 strategy can draw some conclusions regarding the future of Cohesion Policy. First we can conclude that it will maintain a key position in EU agenda in the coming years, as it is explicitly highlighted in the third priority of the Strategy, which refers to inclusive growth. The role that Cohesion Policy has acquired as a key element in the progress of European integration since the adoption of the Delors I package<sup>6</sup>, and as a priority from the budgetary point of view, in principle should continue to be respected with the adoption of Europe 2020

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<sup>6</sup> The financial framework 1989-2003 is known as Delors Package I in honor of the former president of the European Commission Jacques Delors, who was one of the main drivers of the increasing of the European Budget through that financial framework in order to implement the Single European Act of 1986.

strategy, which is a key issue if we consider that regional disparities in wealth within the EU has increased considerably after the last two EU enlargements in 2004 and 2007.

On the other hand, it is clear in the text of Europe 2020 strategy that funds for Cohesion Policy are going to be significantly linked to investments related to research and development and sustainable growth, which are the other two main priorities set by Europe 2020. At this point we can expect a different destination of Cohesion Policy funds in regions traditionally beneficiaries, as many Spanish regions, with respect to investments in new beneficiaries of Eastern Europe. While in the new regions infrastructure investments should have an important weight to overcome the differences compared to other European countries in this regard, in the regions traditionally benefited from Cohesion Policy, which already have substantial resources in infrastructure through past allocations, investments should focus more in the intention to boost research and development and improvement of human capital. If we look at the objectives set by Europe 2020 strategy, they also give increasing relevance to training and employment, so we can also conclude that ESF is going to have an increasing relevance in the field of Cohesion Policy.

To run Europe 2020 strategy the Commission proposes seven actions at the European level, which are called “emblematic initiatives”. Likewise, each EU member state should adopt a strategy in which the objectives of the Europe 2020 will be translated into national targets, based on an analysis of the initial situation of each member state in 2010. Countries should provide regular reports on their progress referred to Europe 2020 strategy simultaneously with the presentation of reports on the evaluation of the Stability and Growth Pact. For the references to Cohesion Policy and Structural Funds made in some of the emblematic initiatives of Europe 2020, it is also clear the intention of the European Commission to use the Structural Funds to boost the objectives of the strategy.

Also the document approved by the European Commission concerning Europe 2020 contains a specific section to highlight the relevance of Cohesion Policy related to the strategy, which is called “*Investing in Growth: Cohesion Policy, mobilising the EU budget and private finance*”. It states that “*Economic, social and territorial cohesion will remain at the heart of the Europe 2020 strategy to ensure that all energies and*

*capacities are mobilised and focused on the pursuit of the strategy's priorities. Cohesion policy and its structural funds, while important in their own right, are key delivery mechanisms to achieve the priorities of smart, sustainable and inclusive growth in Member States and regions.*” It is evident that Cohesion Policy will be closely linked to Europe 2020, as the strategy is very clear from the beginning in the sense that the intention is that all investments of EU should be linked to its objectives, especially those in the field of Cohesion Policy as one of the main instruments of intervention.

### **A budget for Europe 2020**

In the document “A budget for Europe 2020”, the European Commission proposed the financial framework for the period 2014-2020. The total amount proposed for the European budget is 1,025,000 million, equivalent to 1.05% of gross national income of the entire EU. With regard to the allocation for Cohesion Policy, it would represent an amount of 376,020 million euros, 37% of total allocation for the financial framework. This represents a slight increase over the figures of the current financial perspective 2007-2013. Although the increase is not significant, we should highlight the fact that Cohesion Policy would become the European policy with a greater budget<sup>7</sup>. The data are shown in figure 6:

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<sup>7</sup> Overcoming the Common Agricultural Policy is provided on the proposal with 371,700 million euros (281.825 million euros devoted to direct production subsidies and market related expenditure and 89,900 million euros of Rural Development Policy).

**Figure 6: Financial Perspectives 2014-2020 proposed by the European Commission**

	2014	2015	2016	2017	2018	2019	2020	TOTAL
1. Smart and inclusive growth	64.696	66.580	68.133	69.956	71.596	73.768	76.179	490.908
of which: Economic, social and territorial cohesion.	50.468	51.543	52.542	53.609	54.798	55.955	57.105	376.020
% of european budget	35,40%	35,79%	36,21%	36,63%	37,19%	37,57%	37,89%	36,68%
2. Sustainable growth: Natural resources	57.386	56.527	55.702	54.861	53.837	52.829	51.784	382.927
of which: Market related expenditure and direct payments.	42.244	41.623	41.029	40.420	39.618	38.831	38.060	281.825
3. Security and citizenship	2.532	2.571	2.609	2.648	2.687	2.726	2.763	18.535
4. Global Europe	9.400	9.645	9.845	9.960	10.150	10.380	10.620	70.000
5. Administration	8.542	8.679	8.796	8.943	9.073	9.225	9.371	62.629
of which: administrative expenditure of the institutions	6.967	7.039	7.108	7.191	7.288	7.385	7.485	50.464
Total commitment appropriations	142.556	144.002	145.085	146.368	147.344	148.928	150.718	1.025.001

\* Data in millions of euros 2011 prices

Source: European Commission, 2011, a budget for Europe 2020, p.7.

The document "A budget for Europe 2020" dedicates a specific section for each of the policies. The section about Cohesion Policy, called "*Solidarity and investment for sustainable growth and employment*" reels off some of the major developments planned for the Cohesion Policy in the period 2014-2020. We will analyze some of these developments through their translation to the European Commission proposal for new Regulations for the Cohesion Policy.

## **New Regulations of Cohesion Policy proposed by the European Commission and its impact in Andalusia**

On October 6, 2011, the European Commission presented its proposal for new Regulations for the application of European Cohesion Policy in the period 2014-2020. This proposal opened a period of negotiation which should conclude with the adoption of the Regulations by the European Parliament and the Council before 2014.

In this section we will address the main implications that may have on the region of Andalusia the changes proposed by the European Commission in the new Regulations, especially regarding concentration of investments in priorities related to Europe 2020.

We should note, first, the thematic concentration in the structure of the new proposed legislation. It concentrates in a single General Regulation provisions related to the Funds involved in the Cohesion Policy and the Rural Development Policy. This General Regulation provides in Article 9 eleven objectives common to all the Funds, called “thematic objectives”, which are directly linked to Europe 2020 strategy and should be translated into concrete actions in the Common Strategic Framework to be adopted by the European Commission.

On the other hand, the objectives of Cohesion Policy in the new framework are reflected in the Article 81.2 of the proposed General Regulation:

- 1) “*Investment for growth and jobs*”.
- 2) “*European territorial cooperation*”, to be financed exclusively by the ERDF.

Within the target “*Investment for growth and jobs*” we can find 3 different types of regions by GDP per capita (article 82.2):

- 1) Less developed regions. Those with GDP per cápita below 75% of the average GDP of the EU-27.
- 2) Transition regions. It includes regions with GDP per cápita between 75% and 90% of the average GDP of the EU-27<sup>8</sup>.

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<sup>8</sup> They replace the "phasing-out" and "phasing-in" regions of the period 2007-2013.

3) More developed regions. Those with GDP per cápita above 90% of the average GDP of the EU-27.

With this new classification Andalusia would be included in the group of “*transition regions*”. Moreover, article 84 of the proposed General Regulation provides that regions which have been targeted as convergence regions in the period 2007-2013, but whose GDP per capita exceeds 75% of EU average<sup>9</sup> in the new framework will keep two-thirds of the funding received in the period 2007-2013. This is where Andalusia would be classified.

As regards the distribution of the funding from Structural Funds, article 84.3 provides that at least 40% of aid in transition regions should be targeted to the Social Fund. This condition, coupled with the fact that in the case of Andalusia the total amount of aid from the Structural Funds will be reduced by 1/3, would suppose that the capacity of investment in infrastructure through the ERDF will be greatly reduced. We also have to keep in mind that in the current programming period 2007-2013 the distribution is very different, since the allocation of European aid in the Andalusian Operational Programme ESF 2007-2013 is 1,155,756,489 euros, while the amount of European aid for the Andalusian Operational Programme ERDF is 6,843,929,341 euros. That is, the ESF not even represents 15 % of the total of Cohesion Policy endowment in the current period.

With respect to the ERDF Regulation, the main instrument of traditional interventions, the proposed new Regulation by the EU introduces very demanding conditions concerning the destination of investments. The literal expression which specifies the principle of concentration of investments can be found in article 4:

*“The thematic objectives set out in Article 9 of Regulation (EU) No [...] /2012 [CPR] and corresponding investment priorities set out in Article 5 of this Regulation to which the ERDF may contribute shall be concentrated as follows:*

*(a) in more developed regions and transition regions:*

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<sup>9</sup> EU 27 countries before the integration of Croatia.

*(i) at least 80% of the total ERDF resources at national level shall be allocated to the thematic objectives set out in points 1, 3 and 4 of Article 9 of Regulation (EU) No [...] /2012 [CPR] ; and*

*(ii) at least 20% of the total ERDF resources at national level shall be allocated to the thematic objective set out in point 4 of Article 9 of Regulation (EU) No [...] /2012 [CPR] ;*

*(b) in less developed regions:*

*(i) at least 50% of the total ERDF resources at national level shall be allocated to the thematic objectives set in out in point 1, 3 and 4 of Article 9 of Regulation (EU) No [...] /2012 [CPR] .*

*(ii) at least 6% of the total ERDF resources at national level shall be allocated to the thematic objective set out in point 4 of Article 9 of Regulation (EU) No [...] /2012 [CPR].*

*By derogation from point (a) (i), in those regions whose GDP per capita for the 2007-13 period was less than 75% of the average GDP of the EU-25 for the reference period but which are eligible under the category of transition or more developed regions as defined in Article 82(2)(b) and (c) of Regulation (EU) No [ ] /2012 [CPR] in the 2014-2020 period, at least 60% of the total ERDF resources at national level shall be allocated to each of the thematic objectives set in out in points 1, 3 and 4 of Article 9 of Regulation (EU) No [...] /2012 [CPR].”*

Therefore, the proposed new ERDF regulation provides that in transition regions which belonged to convergence objective in 2007-2013 period, as it is the case of Andalusia, at least 60% of all ERDF investment should be centered on the thematic objectives set out in paragraphs 1, 3 and 4 of Article 9 of the General Rules, which are:

*“ 1) Strengthen research, technological development and innovation.*

*3) Enhancing the competitiveness of SMEs.*

*4) Supporting the shift towards a low-carbon economy in all sectors.”*

Thus, at least 20% must be allocated to the scope of objective four.

Possible investment priorities reflected in the proposal of ERDF Regulation within these three thematic objectives are:

*“(1) Strengthening research, technological development and innovation:*

*(a) enhancing research and innovation infrastructure (R&I) and capacities to develop R&I excellence and promoting centres of competence, in particular those of European interest;*

*(b) promoting business R&I investment, product and service development, technology transfer, social innovation and public service applications, demand stimulation, networking, clusters and open innovation through smart specialisation;*

*(c) supporting technological and applied research, pilot lines, early product validation actions, advanced manufacturing capabilities and first production in Key Enabling Technologies and diffusion of general purpose technologies;*

*(3) enhancing the competitiveness of SMEs:*

*(a) promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms;*

*(b) developing new business models for SMEs, in particular for internationalisation;*

*(4) supporting the shift towards a low-carbon economy in all sectors:*

*(a) promoting the production and distribution of renewable energy sources;*

*(b) promoting energy efficiency and renewable energy use in SMEs;*

*(c) supporting energy efficiency and renewable energy use in public infrastructures and in the housing sector;*

*(d) developing smart distribution systems at low voltage levels;*

*(e) promoting low-carbon strategies for urban areas”*

To get an idea of the effort that will suppose for Andalusia the new Regulation in terms of programming of interventions, taking into account that the aid from the ERDF operational program for Andalusia represents more than 75% of the total endowment from Structural Funds, we are going to compare the current contribution of ERDF



Operational Program for Andalusia 2007-2013<sup>10</sup> to these priorities. The results are shown in figure 7:

**Figure 7: Thematic concentration of ERDF Operational Programme for Andalusia 2007-2013**

PRIORITY THEMES		THEMATIC OBJECTIVES 2020		
		1. Strengthening research, technological development and innovation	3. Enhancing competitiveness of SMEs	4. Supporting the shift towards a low-carbon economy in all sectors
1.01	R&Development activities in research centers	1,41%		
1.02	R&D infrastructure (facilities, instruments and high-speed computer networks to connect research centers) and centers of competence in a specific technology	1,15%		
1.03	Technology transfer and improvement of cooperation networks between small and medium size enterprises (SMEs) and between these and other companies and universities, postsecondary educational institutions of all kinds of regional authorities and centers of investigations	0,28%		
1.04	Aids for R&D in particular for SMEs (including access to R&D services in research centers)	0,31%		
1.05	Advanced support services for firms and groups of companies	0,08%		
1.07	Investment in firms directly linked to research and innovation (innovative technologies, establishment of new firms by universities, centers and existing RTD business)	0,08%		
2.06	Aid to SMEs for the promotion of the use of products and production processes that respect the environment		0,20%	
2.08	Other investments in enterprises		16,94% (*) This amount includes aids to big enterprises	
2.09	Other actions to promote research and innovation and entrepreneurship in SMEs		2,04%	
3.49	Mitigation of climate change and adaptation to it			0,04% (*) We can relate the part regarding mitigation of climate change to the thematic objective 4, but not the part regarding adaptation to it (because it would be related with the thematic objective
4.40	Renewable energy: Solar			0,59%
4.41	Renewable energy: Biomass			0,27%
4.43	Energy efficiency			0,59%
		<b>3,31%</b>	<b>19,18%</b>	<b>1,49%</b>

*Source: ERDF Operational Programme for Andalusia 2007-2013, self made.*

<sup>10</sup> In its original version, approved by the European Commission Decision on 3 December, 2007.

We can observe that the contribution of the ERDF operational program 2007-2013 to thematic objectives 1, 3 and 4 of the proposed new ERDF Regulation barely reaches 25%, when the requirement imposed by that proposal would mean 60%. This circumstance, together with the reduction of 1/3 of total allocations received in the field of Cohesion Policy during the next programming period 2014-2020, and, on the other hand, with the imposition that the ESF funding should represent at least 40% of the total Cohesion Policy endowment with the consequent reduction of the ERDF allocation, implies that the region will have to make a major effort to adapt the programming of its investments to the requirements imposed by the new regulatory framework.

These efforts coincide in time with circumstances of drastic reduction in public income and problems of public debt sustainability of Spanish regions, which, added to the mandatory co-financing and anticipation of the payment of investments in the field of Cohesion Policy, means that regional authorities remain with very few capacity to other investing activities. So, the new orientation of Cohesion Policy would have a very deep impact in Andalusia, and it would be a very good example of how the adoption of European Strategies is becoming more and more relevant at the regional level.

## **Conclusions**

In this paper we have intended to give an overview of the implications regarding the orientation of investments that the proposal of new Regulations for the Cohesion policy made by the European Commission on October 6, 2011, has for the region of Andalusia, as a paradigm of region traditionally beneficiary of European Funds that is forced to confront a process of adaptation.

The new Regulations would impose to “*transition regions*” a major shift in investments in the field of Cohesion Policy, being one of the basic guidelines the change from investment in infrastructures to three new “thematic objectives” related to Europe 2020 strategy: “strengthening research, technological development and innovation”, “enhancing competitiveness of SMEs” and “supporting the shift towards a low-carbon

economy in all sectors”. Undoubtedly, this process would be particularly difficult for Andalusia for several reasons, chief among them the harsh effects that the crisis of 2007 has had on the region’s economy and Andalusian public sector accounts. Thus, it is worth noting that the traditional investment in infrastructure has traditionally been absorbed more easily by the regional productive sector because the construction sector is one of the most important ones in the region, so the radical change involving the proposed new Regulations will significantly impede the absorption and impact of the Funds. However, it can be argued that the massive allocation of funds to infrastructure creates an overdependence on the construction sector with the negative consequences that we have seen during the crisis of 2007.

To conclude, “transition regions” face a major challenge with the reorientation of investments in the field of Cohesion Policy, especially if we take into account that this policy nowadays is crucial for some of them, due to their low incomes, and has a tremendous influence in the investment strategies of the region. So, it would be very important to consider the regional policy makers in the negotiation of the new Regulations and supporting them throughout the entire process<sup>11</sup>.

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<sup>11</sup> The European Commission has some initiatives in this sense, especially remarkable the Smart Specialization Platform. It would be very important to reinforce these kind of initiatives.

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