REGIONAL DEVELOPMENT IN THE EU AND TURKEY*

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Abstract

This text examines the fundamental concepts of economic and social cohesion that have underpinned and shaped regional policy in Europe and how these can be applied in the Turkish context. Disparities between richer and poorer regions in Turkey are extremely high and a focus of Turkey's accession strategy in relation to regional development is the application of policies and means that aim to narrow the gap between its more developed regions and those lagging behind. Current EU funded programmes that address the issues of disparities in development are reviewed.

The objectives of the structural funds up to 2006 are be examined as well as those of the next implementation period 2007-2013 particularly in the context of the goals set by the Lisbon agenda. The direction of future regional policy of Turkey on the road to the EU will be commented in the light of the priorities of the new Instrument for Pre-Accession, which has a bridging function to future structural funds.

PATTERNS OF REGIONALISATION IN EUROPE

There has been no uniform pattern of regionalisation Europe. In some cases regions have been superimposed on existing or former territorial groupings. This is the case, for example in Italy, Belgium and Spain and a high degree of autonomy has developed from what might be described as historical regions. Characteristic of these regions has been a bottom up approach, in contrast to the top down approach which has led to administrative or statistic creations with artificially drawn boundaries. This is the case of Sweden, Greece and the UK. Other examples represent a mix of the historical and administrative division, as is the case with Germany. In Eastern Europe, following the collapse of the Communist regime the main drive was towards decentralisation but with smaller and fragmented regions

** The views in this paper are the author's and do not necessarily reflect the position of the European Commission.*

being grouped into larger administrative units. This was the case for Bulgaria, Hungary, Slovakia and Slovenia. Generally speaking, where administrative and functional criteria such as size and characteristics have not coincided with an existing regional identity, the former have prevailed, although there is little correlation between the state of economic development and the kind of regionalisation.

Disparities between regions in EU member states existed long before the creation of the European Community, but were an internal matter for individual nations to address as they saw fit. The Treaty of Rome in 1957, which formed the basis of the European Communities recognised the need to "*promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection"* as well as "*raising the stand of living and quality of life, and economic and social cohesion and solidarity among Member States"*. The aim is to enable all regions to benefit fully from the opportunities offered by the single market. Thus, one of the basic concepts of EU regional policy is that of solidarity, through the provision of Community level assistance to narrow the gap between the richer and poorer regions and help those regions which are "lagging behind" to overcome their disadvantage and catch up. Between 2000 and 2006 one third of the Community budgets, made up of contributions from member states, was spent on regional policy, targeting the regions which are most in need of assistance.

INSTRUMENTS FOR SOCIAL COHESION

The financial instruments by which this solidarity drive to help the least favoured regions is implemented are the Structural Funds and the Cohesion Fund.

The EU provides financial assistance under multi-annual regional development programmes which are negotiated between the regions themselves, for the Member States and the Commission.

The first of the Structural Funds to have been created was the European Social Fund (ESF), to promote employment and improve the mobility of workers within the community. This fund aims to help the workforce to adapt to changes in the labour market, as well as help the unemployed and other disadvantaged groups get back to work. The focus of its funding is training and recruitment schemes.

The biggest of the funds is European Regional Development Fund (ERDF) which finances infrastructure, productive investment for job creation, local development projects and assistance to SMEs. This was created in 1975 following the first wave of enlargement and initially served to help regenerate declining industrial regions in the UK. After Greece, Spain and Portugal joined, the remit of the ERDF gradually extended to cover all the regions whose development was lagging behind.

The Maastricht treaty of 1992 made economic and social cohesion one of the Community's priority objectives. By laying down criteria for economic and budgetary convergence for the Member states, this treaty imposed tight controls on public deficits. For the less well off countries, this meant establishing strict budgetary policies and at the same time increasing investment in infrastructure to speed up development. It was clear that countries such as Spain, Greece, Ireland and Portugal would not be able to achieve this without EU support. It was at this point that the Community set up the Cohesion Fund, to show solidarity with these less prosperous Member States

For the implementation of Structural Funds eligible areas were designated as "Objective 1 or 2 or 3" regions in the 2000-2006 period. Objective 1 were those regions whose average per capita GDP is less than 75% of the European Union average. This objective also covers the most remote regions. Two thirds of Structural Fund operations have been concentrated on Objective 1 regions, which prior to enlargement, covered 20% of the Union's total population.

Objective 2 targeted support for the economic and social conversion of regions in structural difficulties that do not qualify for Objective 1 status, such as declining rural areas, those suffering from declining industries and urban areas experiencing difficulties.

Objective 3 gathered together all the measures for human resource development outside the regions eligible for Objective 1.

The total budget for the SF amounted to €195 billion in 2000-2006, not including the Cohesion fund, of which around 70% was designate for to Objective 1 regions (€135.9 billion), 11.5% to objective 2 and 12% to Objective 3. The four main principles underpinning the operation of the SF are that assistance must be part of a programme, that as many parties as possible must be involved, that community assistance must not replace national funds (and this principle of additionality is a cornerstone of EU funding for both member states and candidate countries) and that spending of the funds must be properly managed, monitored and evaluated, with proper controls on payments.

Programming is based on the preparation of multi-annual development plans which involve a partnership based decision making process, in several states, until the measures are taken over by the public or private bodies entrusted with carrying them out. Development and conversion plans must be based on national and regional priorities. The concept of partnership has been expanded to include regional and local authorities.

The results of a Commission study on the economic impact of Objective 1 between 2000 and 2006 are encouraging in that they indicate that allocated funding steps up significantly the economic growth of the regions receiving assistance, but also has a knock on effect, with one quarter of total expenditure benefiting other regions of the EU. Indicators on technological progress, however, confirm that southern European countries are still lagging behind in terms of technological innovation, with disparities particularly acute in leading edge technology sector.

Every 3 years the Commission produces a report on the progress made towards achieving economic and social cohesion and on the extent to which Community policies have contributed to it. Despite the fact that economic growth slowed down significantly in the EU since the mid-1990s, the general trend towards economic convergence is confirmed with disparities falling across the EU since 1995. The so called cohesion countries which include Spain Greece, Portugal and Ireland, have continued to catch up with other Member States. Ireland has been a notable success story. At the same time, however, regional disparities within Member States have actually grown (i.e. internal regional disparities in several Member States are increasing).

IMPACT OF ENLARGEMENT AND REFORM OF STRUCTURAL FUNDS

The enlargement of the EU to 27 member States, with Bulgaria and Romania joining in 2007, has dramatically increased disparity levels across the EU. The new Member States have markedly lower levels of income per head and employment rates than other EU countries. At the same time, in recent years they have also shown dynamic growth both in terms of GDP and productivity.

With enlargement, regional disparities almost doubled. 48 regions amongst the Europe of 15 Member States 18% of the total population or 68 million inhabitants had a per capita income less than 75% the Community average. With the biggest single wave of enlargement, to encompass 10 new Member States, the number of such regions rose to 67(or 25% of the population and around 116 million persons, two thirds of which are in the new Member States. Only 30 regions in the EU of 15 Member States (12% of the population i.e. around 47 million people) remain under the threshold for 75% and would continue to be considered less favoured areas.

In June 2004, the EC adopted the programmes setting out the strategies to be supported by the SF for the 10 new Member States. Together with Cohesion Fund allocations, the SF are made more than €24 bn available from the European budget to the 10 new Member States over the 2004-2006 period of which €8.5 bn was been allocated to the Cohesion fund.

With enlargement and the sharp disparities between "old" and "new" Member States, there has been a revision of the Structural Funds to cover the period from 2007 to 2013.

Essentially, the strategy and resources of cohesion policy will be grouped into three new priority objectives for structural actions: 1) Convergence; 2) Competitiveness and Employment; 3) Cooperation. These will be covered by 3 financial instruments (ERDF, ESF and Cohesion Fund), rather than 6 under the 2000-2006 regulations.

The three former priority Objectives of the Structural Funds – Objective 1: regions lagging behind in development; Objective 2: regions undergoing economic and social conversion; Objective 3: training systems and employment promotion – were thus replaced in 2007 respectively by convergence, competitiveness and cooperation regions.

Around 82% of the total funds for cohesion amounting to €308 billion in 2007-13 will be allocated to convergence, the bulk of the effort being in favour of the new member states by improving conditions for growth and speeding up, as the term implies, their convergence with existing member states.

Around 16% is earmarked for the regional competitiveness objective. Outside the least developed Member States and regions, the Commission proposes a two-fold approach: First, regional development programmes will help regions to anticipate and promote economic change by strengthening their competitiveness and attractiveness. Second, interventions aim at creating more and better jobs by adapting the workforce to economic change.

Supporting co-operation of regions at cross border, transnational and interregional level to further develop the balanced integration of the Union's territory is at the core of the third objective. Less than 3% will be spent for this priority.

THE LINK BETWEEN STRUCTURAL FUNDS AND PRE-ACCESSION FUNDS

It is important to understand the revision of Structural Funds in order to better grasp the rationale behind the revision of assistance for countries which, like Turkey, are candidates to joint the European Union.

Assistance for candidate countries is determined by the accession process and the need for candidate countries to harmonise with the EU. Their legislation needs to be aligned with the "acquis", the substantial body of EU law. The accession partnership has set out the road map for the alignment process and progress is monitored annual in the Regular Report which reviews the process chapter by chapter. For the present candidate countries, accession is at least a medium term goal and assistance therefore operates in a medium rather than a long term perspective like traditional development aid. This assistance can be viewed as a precursor to the Structural Funds

The main instruments for pre-accession hitherto have included:

Phare: for implementation of the *acquis*, investments in economic and social cohesion, cross-border co-operation

ISPA: environment and transport infrastructure – precursor of Cohesion Fund

SAPARD: CAP *acquis* and Rural development – precursor of Rural Development plans

Turkey pre-accession instrument: same scope as Phare

As from 2007, a new instrument for pre-accession (IPA) came into force, within the context of the revision of the External Aid framework also covering the period 2007-2013. Essentially, IPA will replace the other instruments listed above and aim to reinforce the bridging function towards the adoption of the rules and principles of Structural Funds management. Candidate countries, which include Turkey, Croatia and Macedonia, are thus given the opportunity to "practice" the Community cohesion and rural policies by applying rules as closely as possible to the Structural (and Rural Development) funds before accession.

Under the IPA framework regulation there will be 5 main components:

- Transition Assistance and Institution Building
- Regional and Cross-Border Co-operation
- Regional Development
- Human Resources Development
- Rural Development

The rationale of these components is that Candidate Countries will be confronted with exactly the same situation in the Community's cohesion and agricultural after accession. IPA will support policy development as well as preparation for the implementation and management of the Community's cohesion policy and in particular the preparation for the European Regional Development Fund and Cohesion Fund. Under components III-V Turkey will be assisted to address economic development needs with the aim of convergence with the EU. These needs include the creating employment, modernising agriculture and reducing regional disparities. The EU budget for Turkey under IPA will not be sufficient to have a major impact across all the areas that need to be addressed. Funds will therefore be concentrated along sectoral and geographical lines in order to maximise their impact. Nevertheless the bulk of effort, particularly in tackling regional disparities, will have to come from Turkey's own resources. EU funds will be directed primarily to furthering alignment with the a*cquis* and introducing applying the management principles that are applied to EU instruments. The framework for the regional development and human resources components of IPA (III and IV) will be the Community Strategic Guidelines on Cohesion for the 2007-2013 period. The guidelines make it clear that two set of conditions need to be met in the pursuit of economic development: firstly, the existence of basic infrastructure and a labour force with the necessary levels of skills and training. Secondly, the wide accessibility of information and communications technologies and high priority given to innovation.

The priority areas under the regional component cover environment, energy, transport, education and health and aid to SMEs, reflecting the priorities of the convergence objective under the structural funds.

REGIONAL DEVELOPMENT IN TURKEY UNDER IPA

Turkey is characterised by considerably disparities between its regions, these being more pronounced than in any EU member state, new or old. Per capita GDP in the five poorest regions is between one third and a half of the national average and another seven regions fall below 75% of the national average. In contrast, income in the five richest regions is between 127% and 190% of national average. GDP is not the only indicator to be taken into account. When other socio economic indicators are taken into account, disparities are equally striking in terms of life expectancy, literacy rates, employment rates, access to health services, endowment in infrastructure including sanitation services etc. The poor facilities and employment prospects in the less favoured regions has accelerated the migration process. Not only is there a large rural exodus towards urban areas, but for many migrants the provincial towns are just a staging post towards the bigger cities of the western half of Turkey, Istanbul, Izmir, Bursa, Ankara and Antalya.

Harmonisation with the EU has been a key driver for Turkish regional policies. This process is monitored by the European Commission each year in its regular report on progress towards alignment with the *acquis communautair*e, the body of EU law, currently divided into 35 chapters, of which chapter 22 deals specifically with regional policy. The annual progress report has emphasised that persisting regional disparities need to be addressed and that important legal and administrative measures need to be taken for the successful implementation of regional policy. Turkey has taken several important steps in recent years.

Driven by the accession process, in 2002 Turkey grouped its 81 provinces into 26 territorial units for statistical purposes to align itself with the EU's NUTS II classification. This was an important move because it is at this NUTS II level that Structural Funds are implemented. This was followed by the preparation, spearheaded by Turkey's State Planning Organisation, of a National Development Plan indicating how EU funds would be allocated in the 2004-6 period, outlining the main priority axes and those targeted as "priority regions" for development. These first steps also paved the way for the creation of new structures at regional level, with the longer term view of setting up regional development agencies (DA) in each of the NUTS II regions. The law on the establishment of the DAs was adopted in 2006 and the first two agencies are being set up in Izmir and Adana. In the future, these agencies are expected to play an important role in regional planning and as drivers of the regional economy.

EU REGIONAL DEVELOPMENT FUNDING IN TURKEY: PRESENT AND FUTURE

Hitherto, EU funded regional development programmes in Turkey have focused on the provision of funding primarily for the poorest regions or those with special needs, with integrated programming responding to local priorities. This has been accompanied with capacity building at regional level to implement programmes in a decentralised manner and in an effort to encourage a more participatory (or bottom up) approach to regional planning with involvement of both public and private sector local stakeholders.

Typical areas covered by existing programmes include: small scale infrastructure projects; human resource development; income generation and employment creation; agricultural extension and support; tourism development; rural development; environmental protection and quality of life.

The GAP regional development programme (2001 budget – MEDA regulation) – Budget €47 million (no Turkish co-financing): This was the first EU funded action with a specific regional focus, covering the 9 provinces of the GAP region in Turkey's South East, an area that has also been the focus of the Turkey's ambitious dam building programme. The EU funded project, however, is essentially a poverty alleviation initiative rather than an integrated regional development programme. It has 3 components: Rural Development Grant Scheme (€ 20 mn); cultural Heritage Grant scheme (€ 12 mn); SME grant scheme (€ 2 mn). The project is due to finish in 2008. The rural development grant schemes aim to assist farmers to improve their skills and farming methods through training, capacity building and investment and to diversify their sources of income generation. Under the cultural heritage component, many building of historical interest in the region have been restored and, most frequently are being used to generate income and employment in the region. Under the SME component, funding has been provided to local GIDEMs

The Eastern Anatolia Development Programme (2001 budget – MEDA regulation – Budget €45 million (no Turkish co-financing). This programme represents the first attempt at a more integrated approach to regional programming. It covers four provinces in the east of the country (Van, Hakkari, Bitlis and Muş). Its implementation is decentralised (i.e. management responsibility has been delegated to the Turkish authorities) and there are 5 main strands: 1) capacity building; 2) agriculture and rural development; 3) support for SMEs; 4) tourism and environment; 5) social measures. Under the rural development component, extensive training has been given to farmers to help them improve their skills and the quality of their produce and livestock. A grant scheme was also launched to assist farmers both with capacity building and with investments. The SME component aims to improve entrepreneurial skills in the region through training and capacity building for local business support organisations. A grant scheme for SMEs is under implementation to support local small enterprises with their investments. The tourism and environment component has sought to boost the image of this beautiful region as a tourism destination, highlighting its natural and cultural assets. The grant scheme was also designed with the aim of improving business infrastructure and preserving the environment. Many municipalities submitted their projects for waste management under this scheme. As one of the poorest regions in the country and an area of rapid migration to urban areas, poverty is widespread and the social component aimed to assist the most vulnerable groups in particular and build capacity in local social services and NGOs to provide assistance and services to these groups. This component also included the procurement of two mobile health units to provide services in particular for women and children in the more remote villages.

The Samsun, Kastamonu, Erzurum NUTS II Regional Development programme has a budget €52.33 million (of which EU contribution €40). It is a pre accession decentralised regional programme with 3 components to fund projects in small scale infrastructure, support to SMEs and support to local development initiatives. The components of the 3 grant schemes funded by this programme are similar in scope to the EADP grant schemes.

The Malatya, Ağrı, Konya, Kayseri NUTS II regional Development Programme (which covers 13 provinces) is the largest of them all with a budget of €90.62 million of which EU is financing 75%. The most ambitious programme so far, both in size and geographical coverage, comprising four components. Its scope and content is similar to that of the SKE programme but with the addition of extensive training for farmers.

Trabzon regional development programme € 26 million. This programme will cover 5 provinces of the Eastern Black Sea coast and is similar in both cope and content to the SKE programme.

As we have seen, the main "delivery mechanism" for the funds under these programmes is through grant schemes. If properly targeted, these play an important role in stimulating local initiatives across several sectors of activity and in acting as a catalyst for regional development.

With the introduction of IPA the emphasis is set to change, with the bulk of funds under regional development being spent on investment projects (with 25% co-funding from national sources), much of this will be on heavy cost investment to improve infrastructure in line with the priorities identified under the regional development component of IPA. Under this component, there will be three so called "operational programmes" for Turkey focusing on transport, the environment and support to SMEs. The first of these two will take a more sectoral than regional approach. But in a country with such wide regional disparities as exist in Turkey, central government cannot afford to lose sight of the regional dimension. Under structural funds and under IPA itself, the burden of maintaining the regional balance will fall largely on national authorities given that the EU funds are so limited in relation to Turkey's GDP.

In future therefore, we can probably envisage the implementation of EU assisted regional development falling largely under the responsibility of individual ministries, with a strong coordinating role reserved for the State Planning Organisation which will continue with its primary function of planning, including regional planning.

Regional planning is important because it provides the framework for development. Without this framework, development is likely to be dictated primarily by market forces and inevitably will suffer the consequences of market failures. Planning also implies intervention which in free market economies is considered to be desirable when it tackles market failures, redresses imbalances or prevents them from occurring. Regional problems are ranked among the difficulties which are often above the ability of the market to solve. But intervention may also be seen in a more dynamic and positive light, aiming to increase competitiveness beyond current limits, or accelerating growth. This will be the focus of the regional competitiveness operational programme under IPA.

For Turkey there are many challenges ahead on the path to convergence with the EU. There is a need to continue alignment with the *acquis communautaire* and the competitiveness of the Turkish economy needs to increase to bring it closer to EU levels. Reduction of regional disparities will continue to be a key element under chapter 22 on regional development. In order for IPA funds to make an impact, they must be concentrated on a limited number of operational programmes. The big push towards reducing regional disparities, as we have noted, must come from the Turkish side and through Turkish funds. Interwoven with this priority is the need to increase employment, to restructure agriculture, to mitigate the effects of rapid urbanisation and to improve the protection of the environment. It is likely the Turkish authorities will pursue these goals through a "growth pole" strategy focused on transforming selected provincial towns in the less developed regions into hubs of economic growth and employment which can act as drivers for the regional economy.