

Regional and structural policies in less favoured and cross-border areas – An example from Slovenia

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Abstract

Market forces allocate new investment activities in locations where rates of return from investments are the greatest. Urban locations and a country's capital are often the most favourable locations. The European Unions' (EU) regional, structural and cohesion policies aim at mitigating extreme differences in the level of economic development between the EU member countries and within the country by regions. With the most recent enlargement of the EU towards the East there are now considerable differences in the levels of economic development within the enlarged EU. With the entry of poorer countries the average level of economic development has declined. The differences in the level of development are most evident at some cross-border areas between more and less developed EU member countries. This paper addresses possible extreme situations at cross-border areas when in one country they might be eligible for "equity" measures, but not in another one, although both countries have approximately similar levels of economic development. This paper analyses the cross-border areas between Hungary, Croatia and Slovenia using indicators of economic development.

Keywords: regional policies, structural policies, less favoured areas.

1. Introduction

Regional and structural policies are essential policies towards a multi-sectoral and multifunctional development in the European Union (EU) (e.g. AMIN and THRIFT, 1994, ARMSTRONG and TAYLOR, 2000). The EU policies envisage local strategies of development as a crucial element for local development (EC, 2003). Prior to the most recent EU enlargement and up to 2006, pre-accession programmes and support were offered. These EU co-financing instruments included regional innovative strategies, Phare cross-border cooperation, SAPARD programme for agriculture and rural development as well as support for reconstruction, development and stabilisation. After accession to the EU, these policies became part of the regional, structural, rural development, agricultural and some other policies, e.g. EU Structural Funds, European Social Fund (ESF) and European Regional Development Fund (ERDF) (EC, 2003). Besides these regional programmes there are also opportunities from other EU programmes such as EQUAL, Leader+ and Urban II. The EU regional, structural, cohesion and rural development policies play significant role in local development of peripheral, less developed and less favoured areas (HOLMES, 1998, MAGRINI, 1999). These policies aim at tackling the trade-off between the principle of efficiency and the principle of equity between the EU Member States and between regions within a country (e.g. MALECKI, 1997, DUCHIN, 1998).

The EU Structural Funds are an important source of funding to reduce development inequality at the local level and for local employment development. The ESF supports strategic long-term regional programmes that upgrade and modernise workforce skills and encourage enterprise and are thus the most important for the development of local employment. There are three types of EU regional programmes:

- Objective 1 for regions whose development is lagging behind;
- Objective 2 for economic and social conversion in industrial, rural, urban or fisheries-dependent areas facing structural difficulties; and
- Objective 3 for modernising systems of training and promoting employment in all areas except Objective 1 regions.

The ERDF provides funding for wider economic development, such as business support services or new infrastructure. These supports are

available to regions designated as eligible for support from Objective 1 or Objective 2.

In addition to the regional programmes, other EU programmes provide funding to local actors. The Community Initiative EQUAL provides ESF funding for new approaches to combat discrimination and exclusion, based on the principles of bottom-up strategy building, partnership and empowerment. The Leader+ Community Initiative encourages new approaches to integrated and sustainable development in rural areas as part of a wider area-based approach. The emphasis is on capacity building, empowerment of local actors and targeting of local activity. The Urban II Community Initiative supports innovative strategies for sustainable economic and social regeneration in a limited number of urban areas throughout Europe. Similar as for the Leader+, the emphasis is on capacity building, empowerment of local actors and targeting of local activity.

The paper gives an overview of EU policies concerning less favoured and cross-border regions in Central Europe. The special focus is on the border area between Slovenia, Hungary and Croatia, where the Slovenian area is lagging behind the Slovenian average level of development. The paper draws attention to the fact that in the financial period 2007–2013 the enlarged EU must treat the less favoured regions, especially along the state borders, in a new way.

2. Territorial structures

Territorial administrative structures at regional and sub-regional levels in the EU vary in terms of their geographic size and population. Regional data in the EU are defined according to the levels set in the European standard classification system Nomenclature des Unités Territoriales Statistiques/Nomenclature of Territorial Units for Statistics (NUTS). The NUTS system provides a single uniform breakdown of territorial units for regional statistics. The NUTS regions are classified structures for analytical rather than purely administrative purposes. The classification of regions according to the NUTS levels is mostly based on the population:

- NUTS 0 comprises the EU-25 Member States;
- NUTS 1 is for regions between 3 and 7 million inhabitants, it comprises regions such as the *Länder* in Germany;

- NUTS 2 is for regions between 800,000 and 3 million inhabitants, it comprises regions such as the *regioni* in Italy. The NUTS 2 regions are classified as territorial units particularly relevant for regional development and EU policies;
- NUTS 3 is for regions between 150,000 and 800,000 inhabitants, it comprises territorial units such as the French *départements*;
- NUTS 4 comprises local administrative units;
- NUTS 5 includes sub-regional level, e.g. local municipalities or communes.

The NUTS regions as territorial units are important for data availability and access to EU funding for regional development, different regional initiatives and support policies. The use of NUTS regions also provides opportunities for cooperation with regional institutions.

Table 1 presents the territorial administrative structures at regional and sub-regional levels in two New Member States (Hungary and Slovenia) and in one Candidate Country (Croatia). The territorial administrative structures differ widely between the analysed countries.

Table 1: Territorial administrative structures

Country	Regional level	Sub-regional level
Croatia	20 counties	122 towns and cities/municipalities
Hungary	7 regions	19 counties plus Budapest 3,126 settlements
Slovenia	None	193 municipalities, including 11 urban municipalities*

* Data is for 2005. According to the referendums by some municipalities in 2006 around 15 new municipalities are expected to occur in 2006.

Source: Compiled by the author.

Hungary has created territorial units corresponding to the NUTS 2 units. In the case of Slovenia, similar to Estonia and Malta, the entire country is classified as a NUTS 1 and NUTS 2 region (see Table 2). NUTS regions have not yet been defined in Croatia.

Table 2: Number of NUTS regions

Country	NUTS 1	NUTS 2	NUTS 3
Hungary	1	7	20
Slovenia	1	1	12

Sources Compiled by the author.

At the NUTS 0 level, both Hungary and Slovenia have classified the whole country as a one unit. At the NUTS 1 level, Hungary comprises 1 region, at the NUTS 2 there are 7 regions. At the NUTS 3 level, Hungary comprises 20 units (19 counties plus Budapest) and Slovenia comprises 12 statistical regions. The NUTS 4 comprises local administrative units and the NUTS 5 municipalities. In 2005 there were 193 municipalities in Slovenia. Around 15 new municipalities are expected to be created in 2006 following the results of a referendum in some municipalities, which will split into smaller municipalities. It is interesting to note that even up to now Slovenian municipalities are fairly small: more than 48% have less than 5,000 inhabitants, more than 70 % have less than 10,000 inhabitants, and less than 2 % have more than 50,000 inhabitants. With the implementation of the most recent decentralization tendencies, these municipalities will become even smaller.

3. Cross-border and less favoured target territories

The implications arising from the classification of countries and regions into NUTS units are likely to be more openly visible at cross-border and in less favoured areas. This is especially the case when in one country a region is a priority target territory for EU funding, but not the region across the border in the neighbouring country. For example, Hungary has created territorial units corresponding to the NUTS 2 units, while in the case of Slovenia the entire country is classified as the NUTS 2 region. Such classified and created NUTS regions in implementation may “overstate” the country’s territory and do not fit with the inherited traditional regional and actual economic structures. This is demonstrated in the case of Slovenia, using the data available for the 12 NUTS 3 regions (see Table 3).

Within the NUTS 3 regions in Slovenia, Jugovzhodna (Southeast) is the largest by area and Osredjeslovenska (Middle-Slovenia) the largest by population. Osrednjeslovenska, with the capital of Ljubljana, is the most developed region in Slovenia (see also BOJNEC, 2005). The crucial role belongs to services as the most important sector in this region. Gross domestic product (GDP) per capita in this region is twice as high as in the least developed Pomurska region. Pomurska, bordering with Austria, Hungary and Croatia, is the least developed region in

Slovenia. In the structure of the economy prevail agriculture and labour intensive activities with relatively low educated labour and important women participation. Migration of young and educated people from this region is particularly due to a lack of employment opportunities.

Table 3: Statistical/NUTS 3 Regions in Slovenia

	Population (000) 2003	Natural increase of population 2003	Net mig- ration 2003	Persons in employ- ment (000) 2003	Monthly gross earnings* SIT, 2003	GDP per capita, Euro 2002
Pomurska	123.3	-465	-74	43.2	210,153	8,128
Podravska	319.5	-700	248	115.1	234,286	9,876
Koroška	73.9	-35	-61	25.6	218,833	9,415
Savinjska	257.4	-341	354	99.1	228,960	10,487
Zasavska	45.9	-145	-45	13.4	235,007	8,567
Spodnjepo- savska	70.3	-170	248	22.8	227,470	9,881
Jugovzhodna Slovenia	138.9	-73	281	51.6	234,669	10,612
Osrednje- slovenska	494.1	280	1,329	232.8	294,394	16,701
Gorenjska	197.9	112	-3	70.6	242,330	10,338
Notranjsko- kraška	50.9	-104	200	17.6	228,716	9,197
Goriška	119.8	-268	246	44.9	246,856	11,383
Obalnokraška	105.1	-221	689	40.7	255,463	12,170
Total	1,996.8	-2,130	3,412	777.2	253,200	11,775

* Average monthly gross and net earnings in Slovenian tolar (SIT) per person in paid employment in enterprises, companies and organisations, 2003.

Source: Statistical Yearbook of Slovenia 2004 (2004).

The EU policies pertain to Objective 1 for regions lagging behind in development are linked to the level of development in classified regions (HOFER and WÖRGÖTTER, 1997, MAGRINI, 1999). As Table 4 clearly presents, the level of economic development in terms of GDP per capita in Austria is more than 22 percentage points greater than the EU-25 average. On the contrary, Croatia, Hungary and Slovenia are less developed than the EU-25 average. The level of economic development of Slovenia seems to exceed the set threshold of 75% of

the average EU development as a criterion for eligibility for measures from Objective 1 policies. Up to 2006, Slovenia is eligible for EU developments and structural funds. Due to previous agreements Slovenia seems to be eligible for EU policies and funds of Objective 1 also in the new EU financial perspective 2007-2013, in spite of the fact that Slovenia is classified as one region at both the NUTS 1 and the NUTS 2 level and the fact that its level of development exceeds the 75% threshold.

Table 4: Gross domestic product (GDP) per capita in Purchasing Power Standards, EU-25 = 100

	2003	2004
EU-15	100.0	100.0
Austria	121.5	122.2
Croatia	45.2	46.0
Hungary	59.6	61.0
Slovenia	76.3	78.0

Source: Eurostat (2005) (<http://europa.eu.int/comm/eurostat>, 23/07/2005).

As it has been noted, the north-eastern part of Slovenia (Pomurska region) is approximately 31 percentage points less developed than the Slovenian average. This would suggest that these territories are at around 54% of the level of economic development of the average for the EU-25. Of course, this level of economic development of Pomurska region and some other cross-border areas with Croatia is much closer to the level of economic development of Hungary or Croatia than to the average level of economic development of Slovenia. If these cross-border and less developed areas are not a focus of the target territories for EU policies in Objective 1, and thus for EU funds, this is likely to hinder their development in future. On the other side, it is more likely that the cross-border areas in Hungary (as well as in Croatia, if the country joins the EU) will remain eligible for Objective 1 policies, measures and funds in the new financial perspective 2007-2013. This policy shifts in the cross-border areas may influence investment decisions that may cause changes in markets and prices of production factors (BORTS and STEIN, 1964; WILLIAMSON, 1965; HOLMES, 1998) and discourage local small firm formation, their competitiveness, entrepreneurship and local innovativeness (DANSON, 1996).

4. Conclusions and policy implications

Regional and structural questions in development are of an interdisciplinary nature (see also NEVEN and GOUYETTE 1995). They are related to regional, structural, rural development, agricultural and other policies tackling the trade-off between principles of efficiency and principles of equity. The latter principle particularly relates to less developed and less favoured areas.

In this paper the framework and implications of territorial and structural policies towards peripheral areas and local development in less favoured areas at the cross-border areas between Slovenia and Hungary, and Slovenia and Croatia have been presented. The level of economic development at the cross-border areas has been of the special concern to draw policy implications.

Due to positive externalities of developed infrastructure and synergies of concentration of economic activities, market forces in an absence of government regulations and interventions are signalling new investment activities towards locations where rates of return from investments are greater (BORTS and STEIN, 1964; HOLMES, 1998; AUDRETSCH, 1998). However, such concentration of efficient and competitive activities in the developed, particularly urban locations, such as the country's capital, may induce diverging gaps in development as rich areas are becoming richer, while particularly remote and less favoured areas are becoming even poorer. Of course, these development gaps are reality also in developed countries. So there is largely a political economy question whether to accept certain differences in the level of development within a country and in cross-border areas.

The EU regional, structural and cohesion policies have mitigated occurrence of extreme differences in the level of economic development between the EU Member States and within the countries by regions. However, with the new enlargement of the EU there are considerable differences in the level of economic development because the poorer countries and their even poorest countryside entered into the enlarged EU. During the new financial perspective 2007-2013, the cross-border countries' areas may need to be treated in a different way. As has been shown, in two neighbouring cross-border areas, which have an approximately similar level of development, the area in one country

(e.g. Hungary) might be eligible for “equity” measures, whereas the area across the border (e.g. in Slovenia) might not be eligible. This paper draws attention to another such a possible extreme situation in the case of the Slovenian NUTS 3 Pomurska region bordering with Austria, Hungary and Croatia. The eligibility for support can have an effect on local location competitiveness and support a faster growth in less favoured and less developed areas in association with entrepreneurship and local innovativeness.

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