POLICY BRIEFING 06|2020

German Economic Team

UZBEKISTAN

Public policies for wealth and promotion of long-term sustainable growth

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The Role of the State in the Market Oriented Economic Systems

	Ordo-Liberal System (framework setting)	Neo-Mercantilism (deterministic approach/trade-oriented)	Liberal System (laissez faire)
Competition policy/law	Full competition, protection/promotion	Strategic competition, selective protection/ promotion	Any kind of competition/anti-trust
State intervention in markets	None, in principal	Selective supply-side support	None
Fiscal policy	Balanced budget	Functional finance/selective target oriented subsidies	Functional finance: administration/ security
Industrial policy	Framework setting	Strategic interventions e.g. National Champions	None
Social policy	Redistribution, security, subsidiarity	Redistribution, buffer for structural change	None
International Trade	Free	Free exports/restricted import	Free

Source: own illustration

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Core Public Policies in Ordo-Liberal Market Economies

1. Competition Policy

Legal and economic framework for protection/support/enhancement of functional competition:

- Allocation efficiency
- Primary distribution
- Consumer sovereignty and welfare

Dynamic functions:

- Adjustment/adaptation
- Innovations

2. Industrial Policy

- Structural Policy
- Sectoral Policy
- Innovation Policy
- Trade Policy

3. Social Policy

- Distribution and Redistribution
- Social welfare
- Public education
- Health insurance
- Unemployment insurance

4. Regional Policy

- Competitiveness of regions
- Economic, structural and social cohesion of regions

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1. Competition Policy

The objectives of competition policy are to promote, support and protect competition; competition policy makes markets work better and contributes towards improved efficiency in individual markets

Competition policy aims to ensure

- Effective price and quality competition between companies
- Safeguard and promote the interests of consumers through increased choice and lower price level
- Innovations which promotes dynamic efficiency in different markets

Main pillars

- Market liberalisation (introduction of competition in the state owned sectors)
- Anti-trust & cartels (elimination of illegally agreed restrictions of competition)
- State aid control (prevention of market distortion)
- Merger control (prevention of emergence of market dominance)

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Example: European Competition Law Pillars

- ***Anticompetitive agreements (horizontal and vertical***): business with/out market power that operate at same/vertically related level must avoid hard-core restraints, concerted actions
- ***Cartels:*** competing businesses must not enter into anti-competitive agreements (price, market/customer allocation, bid rigging), or inappropriate info exchange
- ***Abuse of dominance:*** businesses must not abuse their dominant market position in a way that affects trade
- ***Merger ex-ante control:*** business must not implement acquisitions, mergers and joint ventures above a certain thresholds
- ***State aid:*** national authorities must not grant state aids that distort competition and trade in the EU

Sanctions in case of law violation are necessarily high (painful) enough to prevent further abuse

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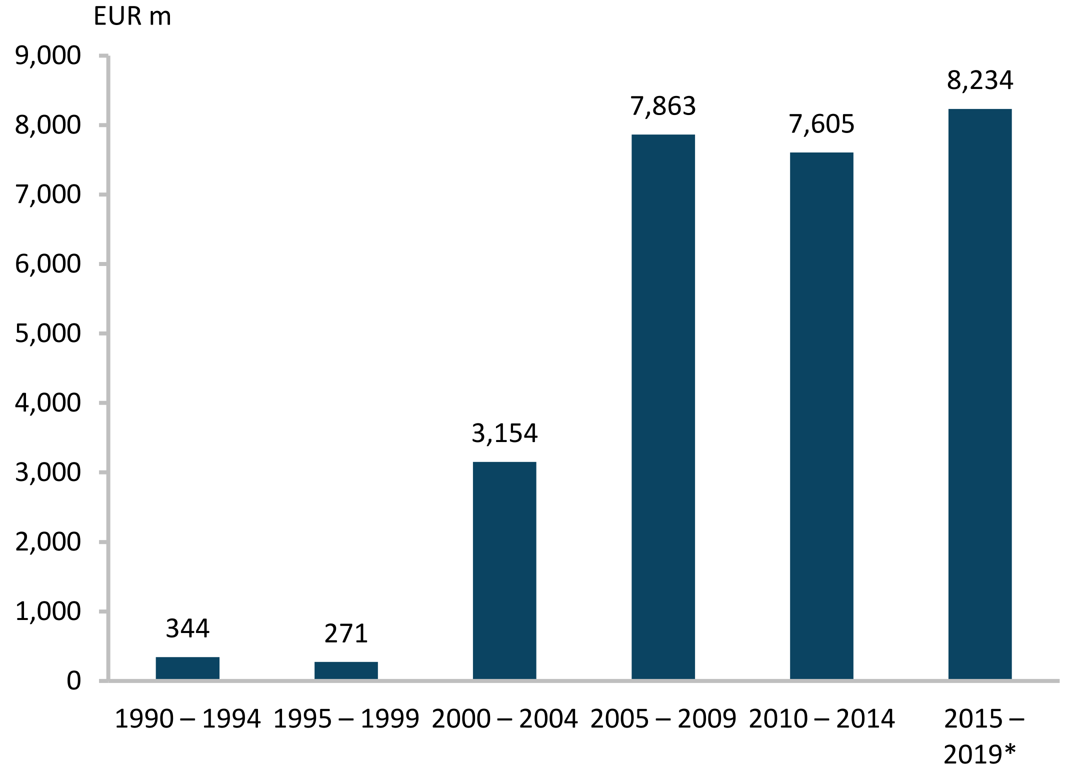
European Competition Policy: Cartels – cases and fines

Fines imposed (adjusted for Court judgments) – period 1990 to 2019

Period	Amount in EUR*
1990 – 1994	344,282,550.00
1995 – 1999	270,963,500.00
2000 – 2004	3,157,348,710.00
2005 – 2009	7,863,307,786.50
2010 – 2014	7,604,840,879.00
2015 – 2019*	8,234,322,032.00
TOTAL	**27,475,065,448.50**



*Source: European Commission; *Note: Amounts corrected for changes (incl. corrections following amendment decisions and judgments of the Courts (General Court and European Court of Justice) and only considering cartel infringements under Article 1010 TFEU (previously Article 81 resp. Article 85 of the Treaty). Wherever prohibitions and fines concern infringements of Article 101 TFEU (previously Article 81 resp. Article 85 and of Article 102 TFEU previously Article 82 resp. Article 86 of the Treaty), only those amounts, which concern the Article 1010 TFEU infringements have been considered; for 2015-2019 data, latest available 7 Nov 2019*

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European Competition Policy: Cartels – cases and fines

Ten highest cartel fines per case (since 1969)

Year	Case name	Amount in EUR*
2016/2017	Trucks	3,807,022,000
2012	TV and computer monitor tubes	1,409,588,000
2013/2016	Euro interest rates derivatives (EIRD)**	1,310,039,000
2008	Carglass	1,185,500,000
2014	Automotive bearings	953,306,000
2007	Elevators and escalators	832,422,250
2001	Vitamins	790,515,000
2010/2017	Airfreight (incl. re-adoption)	785,345,000
2013/2015	Yen interest rate derivatives (YIRD)	669,719,000
2007/2012	Gas insulated switchgear (incl. re-adoption)	675,445,000

*Source: European Commission; *Note: Amounts adjusted for changes following judgments of the Courts (General Court and European Court of Justice) and / or amendment decisions; last available data as of 10 November 2017*

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European Competition Policy: Cartels – cases and fines

Ten highest cartel fines per undertaking (since 1969)

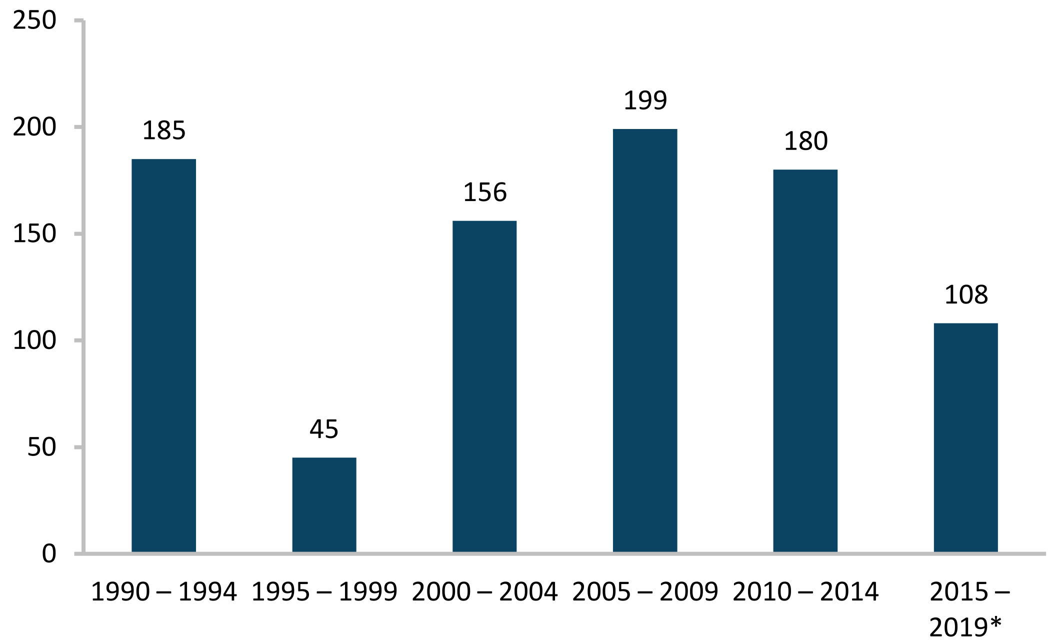
Year	Undertaking	Case	Amount in EUR*
2016	Daimler	Trucks	1,008,766,000
2017*	Scania	Trucks	800,523,000
2016	DAF	Trucks	752,679,000
2008	Saint Gobain	Carglass	715,000,000
2012	Philips	TV and computer monitor tubes	705,296,000 of which 391,940,000 jointly and severally with LG Electronics
2012	LG Electronics	TV and computer monitor tubes	687,537,000 of which 391,940,000 jointly and severally with Philips
2016	Volvo/Renault Trucks	Trucks	670,448,000
2016	Iveco	Trucks	494,606,000
2013	Deutsche Bank	Euro interest rate derivatives (EYIRD)	465,861,000
2001	F. Hoffmann-La Roche	Vitamins	462,000,000

*Source: European Commission; *Note: Amounts adjusted for changes following judgments of the Courts (General Court and European Court of Justice) and / or amendment decisions; last available data as of 27 September 2017*

European Competition Policy: Cartels – cases and fines

Number of decisions (per undertaking/association) - period 1990 to 2019

Period	Undertakings
1990 – 1994	185
1995 – 1999	45
2000 – 2004	156
2005 – 2009	199
2010 – 2014	180
2015 – 2019*	108
TOTAL	**873**



*Source: European Commission; Note: Includes entities not fined such as immunity applications - if more than one legal entity of the same group were subject to the decision, they are counted as one for the purpose of this table; *latest available 27 September 2019*

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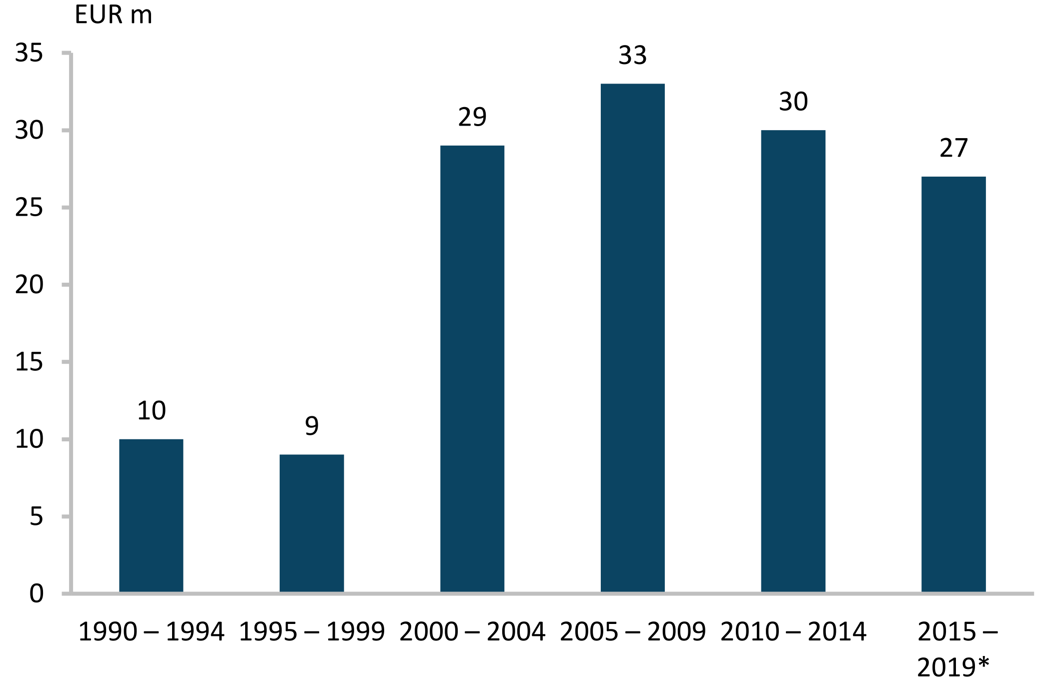
European Competition Policy: Cartels – cases and fines

Cartel cases decided by the European Commission - period 1990 to 2019

Period	Decisions
1990 – 1994	10
1995 – 1999	9
2000 – 2004	29
2005 – 2009	33
2010 – 2014	30
2015 – 2019*	27
TOTAL	**138**



*Source: European Commission; Note: A cartel case concerns a single proceeding against various undertakings concerned, and may involve more than one infringement – only those cartel cases where a fine was imposed were considered for the purpose of that table; *latest available 27 September 2019*

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European Competition Policy – News and Examples

Mergers:

http://ec.europa.eu/competition/mergers/overview_en.html

Antitrust:

http://ec.europa.eu/competition/antitrust/news.html

Cartels:

http://ec.europa.eu/competition/cartels/what_is_new/news.html

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Competition Policy – Summary

- Antitrust and Competition law has been established in more than 120 jurisdictions around the globe
- Competition law enforcement exists to ensure the integrity of free markets and prevent distortion by anti-competitive conduct. Dynamic undistorted competition has two important benefits:
  - First, it protects consumers from companies that may seek or use market power to increase prices or cut down outputs
  - Second, it promotes productivity growth and innovations, widely by imposing stronger rivalry among companies to succeed in gaining the business of customers, which in turn leads to faster economic growth
- Along with the sophisticated legislation the effective enforcement is essential:
  - An independent antitrust authority has to be in power to implement investigative and regulative tools
  - Also fines imposed need to be adjusted regularly to maintain dissuasive effects
  - State aid has to be justified economically and avoid distortion in markets

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2. Industrial policy

- In a very broad sense it shows the government attitude toward public and private sectors
- In a more precise sense it develops the industrial development according to overarching national economic objectives
- It covers rules, regulations, principles, policies as well as procedures laid down by government to support development of industries
- It also indicate the role of the large, medium and small scale sector

Fundamental principle:

Industrial Policy should not intervene, disrupt or eliminate functional competition (competition policy prerogative)

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2. Industrial policy – Main principles

- Industrial policy is frequently rationalised as method of correcting market failures. That said, in some countries factors other than the correction of market failures may be the driving force behind industrial policy
- Where and when industrial policy co-exists with competition policy, industrial policy should be respectful of sound competition principles
- The importance both of the free market and of the protective role of the competition authorities as regards the free market should prevail, even in times of severe economic crisis. In fact, in turbulent times, competition itself can play a considerable role in helping to steady „economic nerves‟; competition law and policy, as instruments that protect competition, are therefore of significant value

2. Industrial policy – Areas of implementation

Industrial Policy rarely support the entire economy

It rather focuses on specific areas to achieve desired results

- Structural impact (support of adjustment/adaptation to structural change)
- Sectoral impact (support of specific brunches)
- Regional impact (support for specific regions)
- Innovations and R&D (support usually in specific brunches)
- Trade (export orientation)

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Industrial policy – Possible instruments

Instruments compatible with competition policy (framework setting):

- National Development Plan (vision, creation of expectations)
- Regulations / Regulatory Policy (requires periodic evaluation – see below I.)
- Tax reduction
- Specific rules/exemption from rules
- Incentives for investments/innovations
- Trade agreements/barriers

Instruments less compatible/not compatible with competition policy:

- ***Private-Public-Partnerships (PPP) (see below II.)***
  Impact: possible crowding out effect on private sector

- ***Subsidies***
  Impact: inefficiencies, crowding out effect on private sector, distortion of competition

- ***National Champions (see below III.)***
  Impact: distortion or elimination of competition, economic inefficiencies, reliance on public support/bail out

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I. Regulatory Policy Evaluation

The Framework for Regulatory Policy Evaluation

Easy → Hard

	Design		Implementation		Strategic outcome
	I. Input	II. Process	III. Output	IV. Intermediate outcome	V. Regulatory quality / V. Regulatory output
Set strategic objectives for regulatory policy in general	**What resources are committed?**	**Are requirements for good regulatory practices in place?**	**Have the good practices been implemented?**	**Have good practices helped to get quality regulation?**	**Have strategic objectives for regulatory policy in general been achieved?** • Economic: Net benefits (possibly in comparison with counterfactual and alternatives) • Efficient and streamlined: Compliance costs and burdens (possibly integrated into net benefits) reduced enforcement costs • Perception of regulatory quality in general • Improved compliance rate • Transparent and easy to access
Set strategic objectives for regulatory policy in specific sectors (e.g. health, environment, education)	e.g. budget, staffing expertise	e.g. requirements for objective setting, consultation, evidence-based analysis, simplification, risk assessments (e.g. indicators of regulatory management type), aligning regulatory changes internationally	e.g. % of RIAs that comply with formal requirements, quality of post-implementation reviews	e.g. % of those involved in the regulatory process that think RIA has improved the quality of regulation as opposed to being a tick-the-box exercise; comparison of costs/benefits of initial regulatory proposal to those of actual regulation that was passed	**Have strategic objectives for regulatory policy in a specific sector been achieved?** • Effectiveness – market failure/problem/risk/ was solved or mitigated • Protection and benefits of the public, responsive and accountable Fact-based and perception-based sector-specific indicators: • e.g. environment (e.g. SOx and NOx emissions, concentration of air pollutants in urban areas) • e.g. safety • e.g. health

Regulatory system ← **Feedback loop** → **Regulatory impacts**
Other factors that influence outcome

Source: OECD

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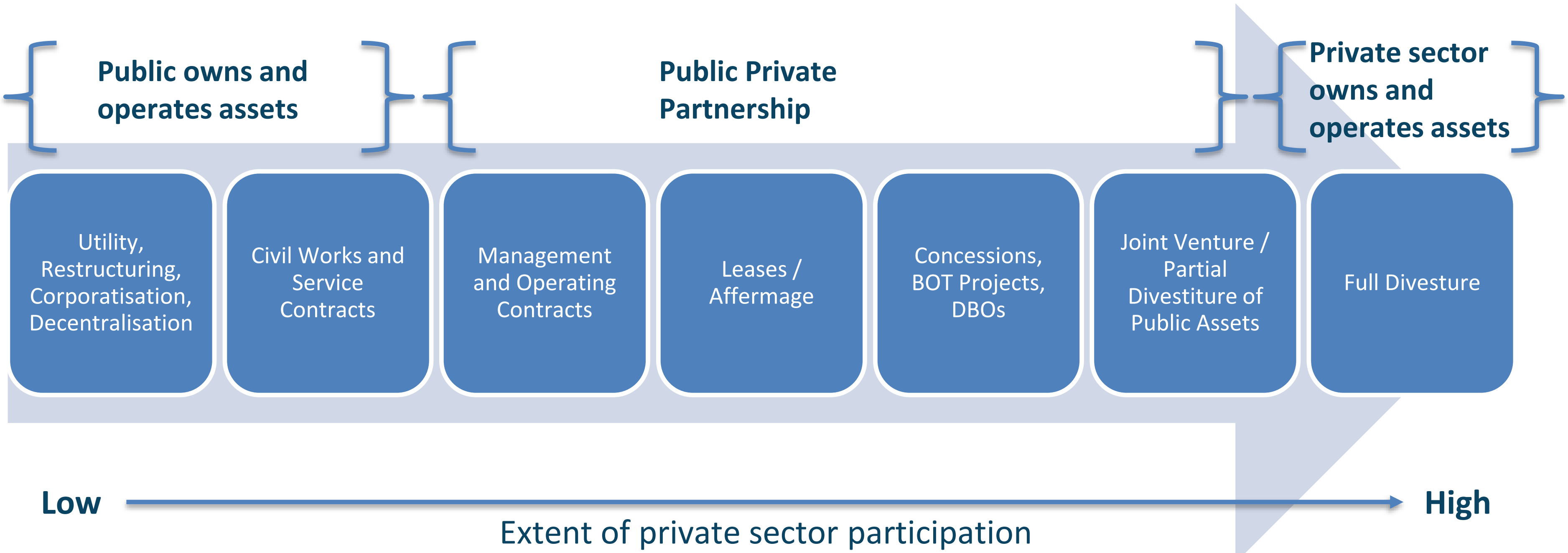
II. Public-Private Partnerships – Classification by World Bank

PPP Arrangements / Types of Public-Private Partnership Agreements



Public-private partnerships (PPPs) take a wide range of forms varying in the extent of involvement of and risk taken by the private party. The terms of a PPP are typicaly set out in a contract or agreement to outline the responsibilities of each party and clearly allocate risk. The graph above depicts the spectrum of PPP agreements – World Bank

Source: World Bank

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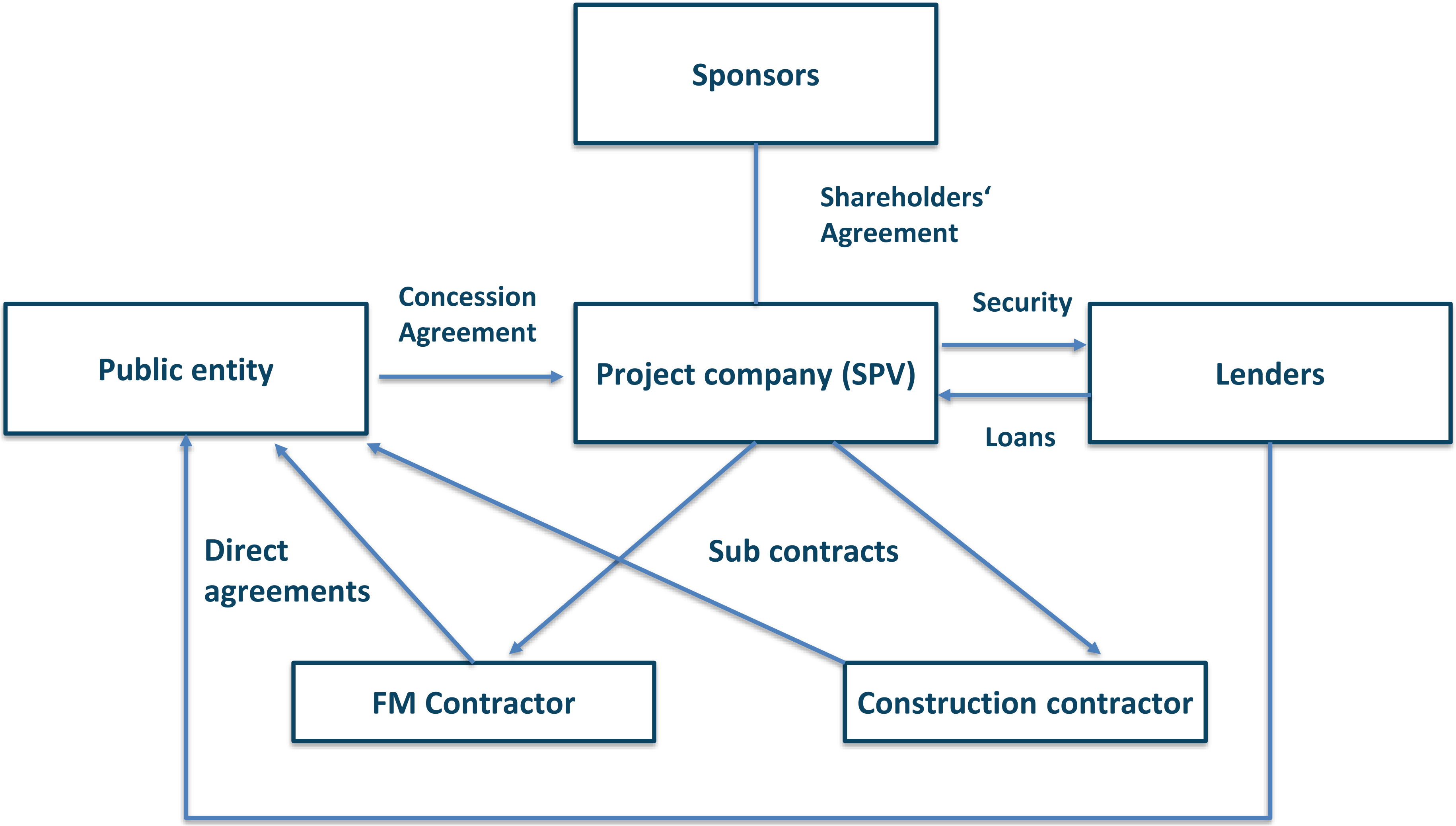
II. Public-Private Partnerships - Design

Principal parties in a PPP project



Source: own illustration

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II. Public-Private Partnerships – Example Joint Venture (World Bank)

Advantages and disadvantages of government having a stake in a project company (1)

Governments cite a number of reasons for why they would prefer to take a substantial stake in a project company or maintain a substantial stake in a utility involved in a PPP. However, as the public and private sectors work in very different manners and have different processes and priorities, in practice this can cause certain challenges:

Advantages:

- Public party can exercise some degree of control over day to day operations or at least key decisions (at board and shareholder level)
- Transparency (accounts and finances presented to board)
- Public perception – this is not privatization or private provision of a service
- Sustainability – continuity of partners – even if private partner changes
- Share of profits

However, as share ownership alone does not necessarily guarantee these advantages, attention needs to be given to the shareholder agreement

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II. Public-Private Partnerships- Example Joint Venture (World Bank)

Advantages and disadvantages of government having a stake in a project company (2)

Disadvantages:

- In-built conflict of interest between public party as the contracting authority and as a member of the project company (in case of dispute under project agreement) (concern for financiers)
- Private party (and financiers) will want to ensure private party has autonomy to run day to day business
- Private party can ensure that project company never makes a profit by ensuring that all profits are paid out as fees to sub-contractors under its control (public party will need to watch out for this and ensure it has veto rights over certain liabilities being taken on by project company). No profits means no dividends.
- Board membership does not necessarily give control or visibility on operations
- Tax and accounting issues (if project is to be off balance sheet for government, need to ensure that arrangements do not bring it back on balance sheet)

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Public-Private Partnerships – Case Studies

RESOURCE BOOK ON PPP CASE STUDIES by European Commission:
https://ec.europa.eu/regional_policy/sources/docgener/guides/pppresourcebook.pdf

PRO-POOR PPP CASE STUDIES GLOBAL by World Bank:
https://ppp.worldbank.org/public-private-partnership/case-studies-pro-poor-ppps

PPP CASE STUDIES by United Nations: https://www.unescap.org/resources/ppp-case-studies

PPP CASE STUDIES by PPPKnowledgeLab:
https://pppknowledgelab.org/search?doc_type%5B%5D=Case%20Studies&restrict_pages=1&site_source%5B%5D=Handshake%20Journal&site_source%5B%5D=Knowledge%20Lab

THE ROLE OF PUBLIC-PRIVATE PARTNERSHIPS IN DRIVING INNOVATION:
https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2012-chapter2.pdf

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III. Industrial policy – National Champions

- Many large corporations play the role of national champions. They are suposed to help their home countries maintain good jobs, technological leadership, and exports. National champions include Toyota, Siemens, Samsung, Apple, Citigroup, Fiat, Airbus, Intel, Volkswagen, an increasing number of Chinese companies, and—until now—Boeing, the source of a huge U.S. trade surplus in commercial airliners.
- In the EU governments have different, often contradictory, strategies for their respective manufacturing sectors. Germany is focusing on creating a competitive framework that enables "hidden champions" to emerge as global leaders. France, by contrast wants to create national champions by selecting specific sectors for special support (Example: carmaker Peugeot)
- Past experience shows that the French approach is not very promising. As a 2004 report from Germany's Monopolies Commission pointed out, "French enthusiasm for pronouncements on industrial policy and the media's admiration for the activism of the ministers responsible are out of all proportion to the success of this policy."
- Industrial support is usually justified on the grounds that private-sector monopolies and duopolies distort markets – though, for example having driven McDonnell-Douglas out of the market, Airbus and Boeing left the global market structure unchanged.
- National champions repatriate monopoly rents; but as Germany's Monopolies Commission pointed out, Airbus "could only be regarded as a success story if eventual earnings made the subsidies look like a profitable investment." There is little chance of that happening anytime.

Source: World Economic Forum

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III. Industrial policy – National Champions

Selection of investment projects for public support is regularly biased by politicians Some characteristics of such projects:

- they tend to be large,
- they tend to produce products that are highly visible in the press and media,
- they tend to be comparatively insulated from competition – both because this makes them less risky to finance and because it avoids questions about their comparative performance with similar projects that do not receive public support.

In many cases national champions:

- contribute to distortions and limitation of competition in internal market through market power abuse or non competitive practice (Microsoft, Google, Apple, Facebook, Volkswagen)
- create inefficiencies and unprofitable outcomes (Airbus, Boing, Q-Cells and Solar Valley/Talheim/Germany)
- rely on long-term subsidies/tax reduction/export support (solar industry in Germany)
- once inefficient they have a large negative impact on the labour market (Airbus)
- expect bail-outson costs of tax payer: to big to fail (financial institutions after 2008/09 crisis: Commerzbank)

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Further Policies: Innovation Policy

It aims to create legal and economic incentives for innovations and is an particularly import part of industrial policy.

The possible instruments:

Regulations

- Intellectual Property Rights
- Universities and clusters
- Competition policy about R&D alliances
- Bioethical regulations

Economic transfers

- ‘En block’ support to research organisations and universities
- Competitive research funding
- Tax exemptions
- Support to venture and seed capital

Soft instruments

- Voluntary standardisation
- Codes of Conduct
- **Public-private partnerships (PPP)**
- Voluntary agreements

Source: Borras, S./C. Edquist (2013)

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Further Policies: Trade Policy

- Trade policy is a collection of rules and regulations which pertain to trade
- It aims to restrict or to enhance international trade
- It has a long-term impact on national economic structure
- It supports economic growth while enhances economic dependencies
- It opens the chance for specifications and diversification of the national economy
- It allows to expose specific sectors to or to shelter them from international competition (both could have positive and negative economic impacts)
- Purpose of trade policy: to help nation's international trade run smoothly, by setting clear standards and goals which can be understood by potential trading partners. It includes export support, import regulations, inspection regulations, taxes, tariffs and quotas

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Industrial Policy - Summary

- Industrial Policy as an overarching tool to develop and to prepare economy for the future challenges is dispensable.
- However, it should avoid to intervene in functional market competition and to distort it. Otherwise, crowding out effects might lead to a long-term unsustainability in economic development.
- The most important areas to focus on are: National Development Plan, innovation policy, trade policy. Adjustment and adaptation are expected to support structural change in certain sectors.
- The instruments have to be selected carefully supporting the main economical goals and still allowing for competition to unfold its positive effects. While Public Private Partnerships are in certain areas of economic activities in line with market requirements, building up by political power and subsidising of National Champions is not. In a short term such a strategy might seem to create foreign trade surplus. In long run it is destructive to national market competition and increases dependentcies between company and the state.

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3. Social Policy

- Is defined as a policy directed towards social services and welfare state
- It is considered on policy and administration of social services including housing, education, income maintenance and policies for health
- Objects: individual, group of people, whole population
- Objectives: Redistribution, Insurance, Safety Net, Efficient Labour Force

Functions of social policy:

- Protective function
- Function of distribution
- Function of productivity

Models of social policy:

- Distributive
- Residual
- Corporative

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3. Social Policy – Different types

Swedish type (Scandinavia and Benelux):

- Social-democratic / mainly distributive
- State social support
- For society

English type (Australia, New Zealand, Canada, USA):

- Liberal / mainly residual
- Social assistance
- For citizens

German type (Germany, Austria, Switzerland):

- Social-democratic / mainly corporative + distributive
- Social insurance
- For employee

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Social Policy – Characteristics

Residual/liberal

- Represents individualism and a punitive view of poverty
- These issues often seem to dominate debates on welfare: examples are the introduction of ‘workfare’, the exclusion of long-term benefit dependents, criticism of the ‘underclass’

Distributive

- The main goals of the state: equality, social security, wealth redistribution
- Typical features: high taxes, high employment, low level of poverty, universal healthcare, extensive social benefits, high state spending, importance of labour union

Corporative

- Important position for trade unions
- Principle of merit and output
- State guarantees basic social certainty

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Social Policy – Diversity of General Paradigms

	Developmental	Productivist	Redistributive
Region	Developing and underdeveloped countries worldwide	Newly industrialised societies in East Asia	Advanced industrialised societies in the West
Orientation	Human development and community action	Modernisation and the pursuit of GDP	Income redistribution and social security
Value	Human right and human security, collectivisim	Workfare, labour protection	Social justice and welfare rights of citizens
Developmental goals	To improve living conditions by economic growth and collective efforts	To achieve a high rate of economic growth with a trickle-down effect	To regulate the market by social policies that promote social equality
Policy-making process	Bottom-up approach	Top-down approach	Corporatist bargaining approach
State role	Partnership with non-governmental sectors	Main regulator	Main provider
Strategies	Asset-building, community participation and collective welfare	Labour protection, company welfare and social insurance	Income redistribution through social security programmes and progressive taxation
Context of society	Communitarian	Authoritarian	Democratic

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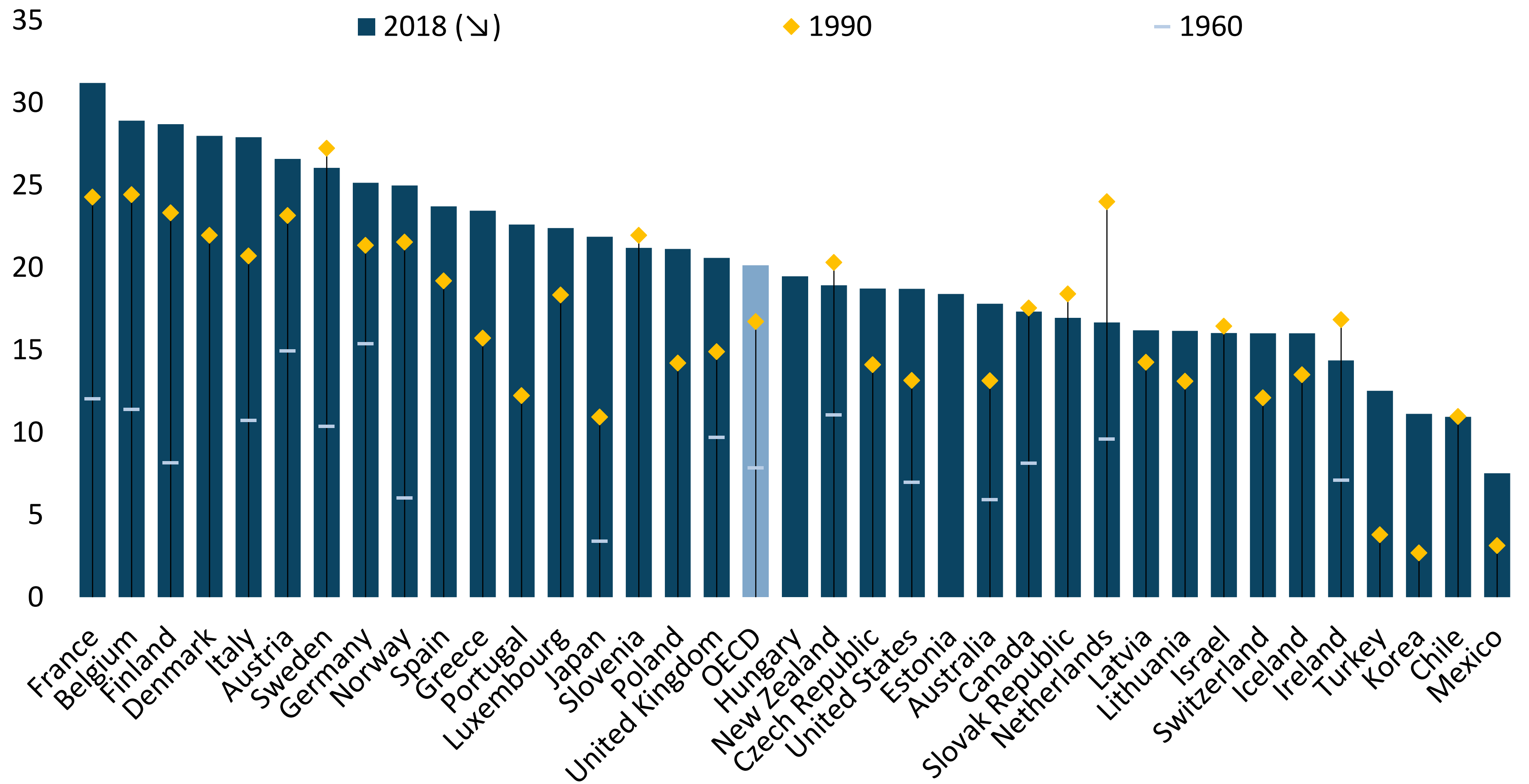
Public Social Spending – OECD Data (% of GDP)



Source: OECD 2019

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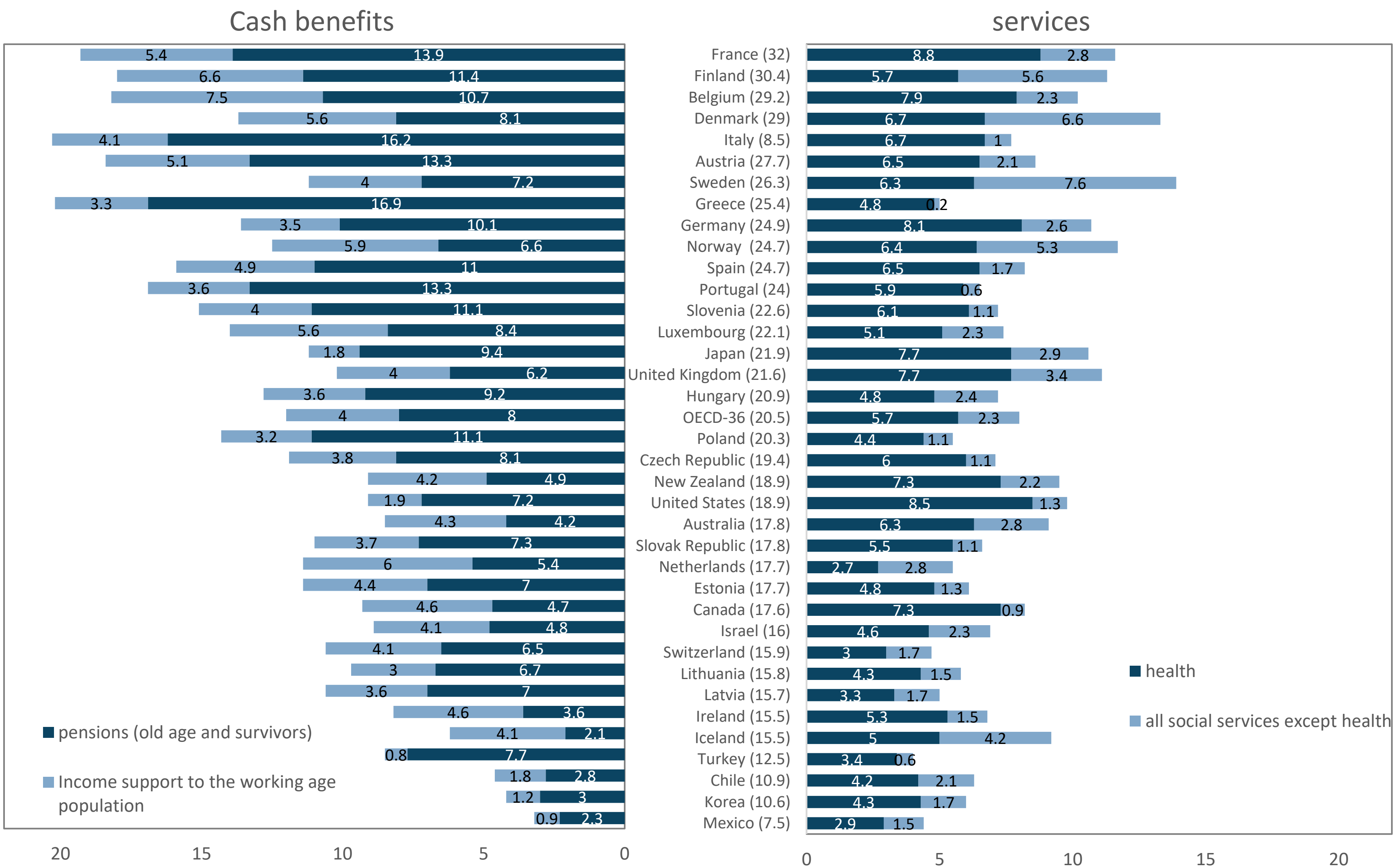
Public Social Spending – OECD Data

Public social expenditure by broad social policy area, in percentage of GDP, 2015/17 or latest year available



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Social Policy – Example: Germany – Tax Variety

- Income taxation (progressive):
  - Income from agriculture and forestry
  - Income from business operations
  - Income from self-employed work
  - Income from employed work
  - Income from capital
  - Income from letting property
  - Miscellaneous income
- Corporate Tax
- Trade tax
- Value-Added tax
- Real property transfer tax
- Inheritance and gift tax
- Capital gain tax
- Aviation tax
- Motor vehicle tax

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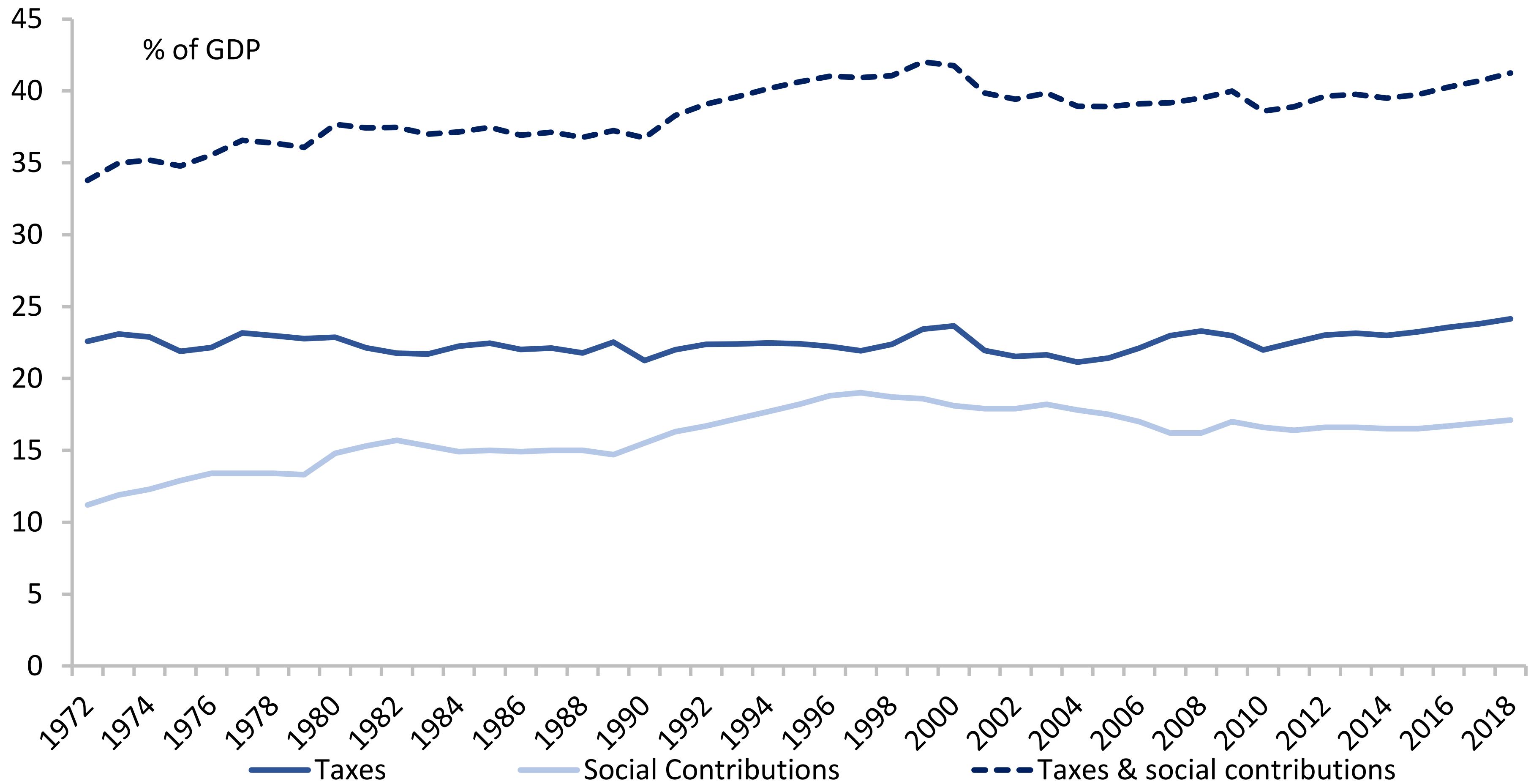
Germany Tax Revenue 1972-2018 (% GDP)



Source: IMF

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Social Policy – Summary

- Social policy is an indispensable tool to increase economic efficiency of human capital. Further, it helps to enhance and to ensure social cohesion through social protection, health and safety at work, public wellbeing
- There are different models and functions which has to be selected carefully in line with the overarching economic model and the social consensus
- Social policy measures require effective tax collection system consisting of direct and indirect taxation
- There is no consensus around the world whether progressive income tax is more effective than flat tax. The first is considered as social justice while the latter is easier in terms of enforcement
- German progressive taxation system with a wide range of different types of taxes is known as a sophisticated as well as cumbersome in handling
- Post-transformational countries have proved the tendency to implement flat tax system

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4. Regional Policy

- The need for regional policy as a separate policy is justified by the fact that the increasing freedom of the factors of production promotes the levelling of the prices of the factors (E.g. wages, capital allowances, etc.) but it does not substantially affect the differences of efficiency or productivity between the sectors or the regions
- Regional policy aims in broad sense to alter the spatial economic structure of the certain region and/or to increase the cohesion between the regions
- Regional policy constitutes an integral part of the economic (industrial) policy. It is a cross-sectional policy integrating the sectoral policies concerned at a given territorial level
- Its objective is to shape spatial processes, level territorial disparities and improve the competitiveness of a region
- Regional policy besides economic is determined by social aspirations as well. That is why it aims to alter the performance of a given region or the indicators (employment, structure of economy, regional activity, etc.) affecting it
- The character of space is shaped by three groups of factors:
  - natural factors (topography, climate, supply of water, quality of soil, natural resources, etc.
  - social factors (demographic, cultural, religious, etc.).
  - economic factors (sizes of property, company, infrastructure of transport, etc).

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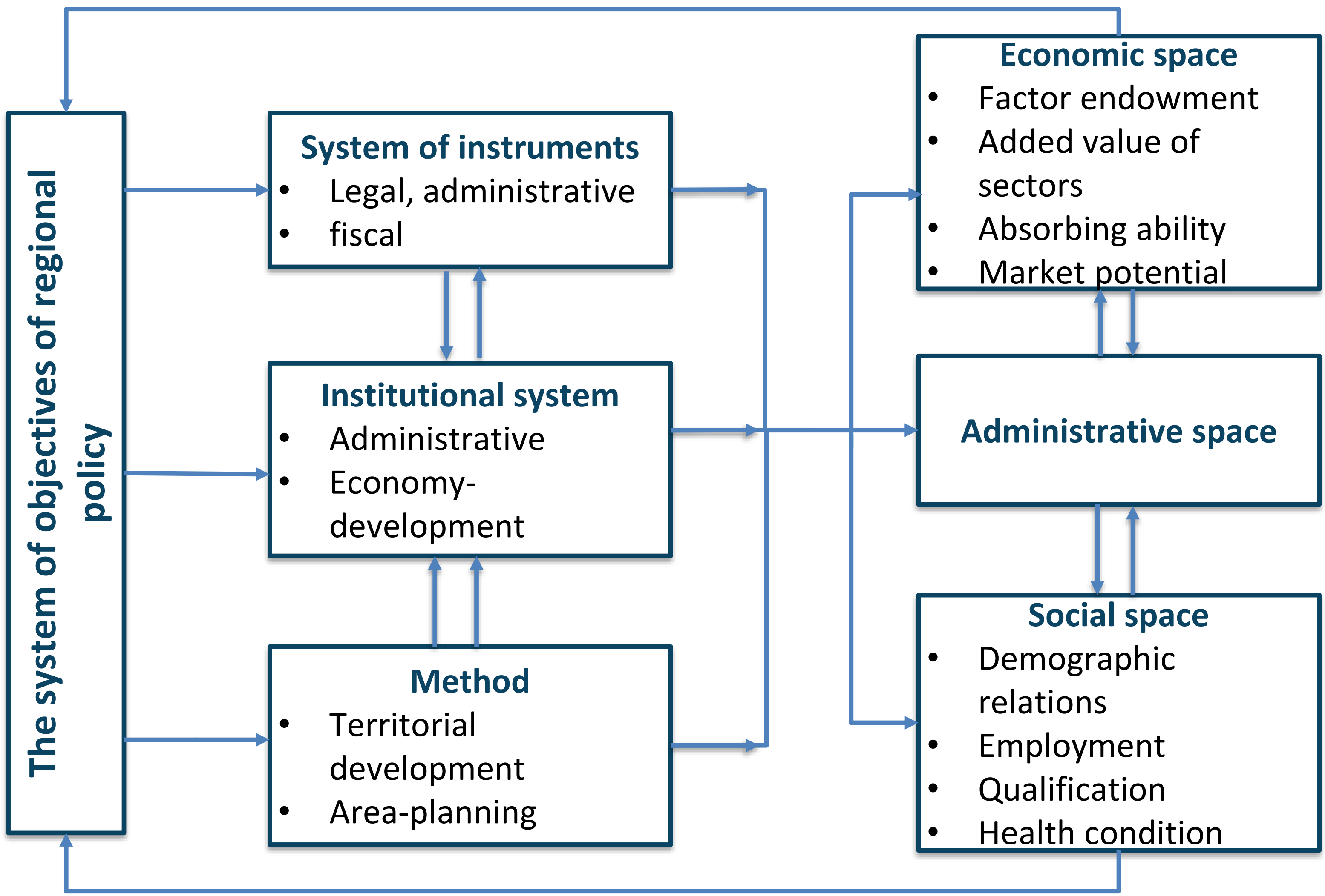
4. Regional Policy – Instruments



Source: University of Miskolc

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Regional Policy – Liberal vs Keynesian Concepts

Criterion	Neoliberal concept	Keynesian concept
Reasons of territorial economic disparities	• Inefficiency • Low effectiveness • Social and economic rigidity of microeconomic actors	• On the one hand external (cyclicality of world economy) • on the other internal (structural, capital, etc.)
Mode of intervention	• Primarily with instruments of the market economy	• A combined application of instruments of the market economy and state redistribution
Form of regional policy	• Selective support • Development of local forms of the free market (enterprise zones, development associations) • Compulsory economic measures at the local level • Development of private community engagement (PPP)	• Extensive state subventions • Regional agencies • Comprehensive intervention of the local government

Source: *University of Miskolc*

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Regional Policy – New Institutional Approach

Institutional regional policy

Institutional regional policy (new regionalism) emerged parallel with the new regional institutions of the EU in the 1990s (regional development agencies, entrepreneurial chambers, etc.) in answer to the inadequacies and failures of the neiliberal and Keynesian policies.

New regionalism explains the economic dynamism of certain regions by the growth of the importance of cooperative forms of innovation and learning in the framework of the regions' adjustment to the new economic conditions (MacKinnon, 2002). In this terms the region is considered as the source of competitive advantages. The innovative and learning competence of the regions in the knowledge-based economy determines their development or decline. Consequently this policy relies on the development of the technological factors, on innovations and the qualitative factors of workforce (training/retraining programmes, etc.).

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Regional Policy – Example: European Cohesion Policy

European Cohesion and Regional Policy 2021-27 – the main features

1. **A focus on key investment priorities, where the EU is best placed to deliver**: The bulk of European Regional Development Fund and Cohesion Fund investments will go towards innovation, support to small businesses, digital technologies and industrial modernisation. It will also go to the shift towards a low-carbon, circular economy and the fight against climate change, delivering on the Paris Agreement.

Source: European Commission, Regional Development and Cohesion Policy 2021-2027

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Regional Policy – Example: European Cohesion Policy

2. A Cohesion Policy for all regions and a more tailored approach to regional development:

Investing in all regions: Regions still lagging behind in terms of growth or will keep benefiting from important EU support. Cohesion Policy will continue investing in all regions, as many of them across Europe struggle to achieve industrial transition, fight unemployment and hold their own in a globalised economy;

A tailored approach: Cohesion Policy keeps 3 categories of regions: less-developed, transition and more developed regions. To reduce disparities and help low-income and low-growth regions catch up, GDP per capita remains the predominant criterion for allocating funds. In addition, new criteria aim at better reflecting the reality on the ground – youth unemployment, low education level, climate change and the reception and integration of migrants.

Locally-led: The 2021-2027 Cohesion Policy stands for a Europe that empowers, by supporting locally-led development strategies. Local, urban and territorial authorities will be more involved in the management of EU funds, while increased co-financing rates will improve ownership of EU-funded projects in regions and cities.

Source: European Commission, Regional Development and Cohesion Policy 2021-2027

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Regional Policy – Example: European Cohesion Policy

3. Fewer, clearer, shorter rules and a more flexible framework:

Simplifying access to funds: The Commission proposes to make the rules less complex in the next long-term EU budget, with less red tape and lighter control procedures for businesses and entrepreneurs benefiting from EU support;

A single rulebook: One set of rules now cover 7 EU funds implemented in partnership with Member States ('shared management'), which will make life easier for EU funds programme managers. It will also facilitate synergies, for example between Cohesion Policy funds and the Asylum and Migration Fund when it comes to the development of local integration strategies for migrants. The framework also allows for more efficient links with other funds from the EU budget toolbox; for example Member States can choose to transfer some of their Cohesion Policy resources to the InvestEU programme.

Adapting to needs: The new framework also combines the stability necessary for long-term investment planning with the right level of flexibility in order to cope with unforeseen events. A mid-term review will determine if changes in the programmes are needed for the last 2 years of the funding period, and limited transfers of resources within EU funds programmes will be possible.

Source: European Commission, Regional Development and Cohesion Policy 2021-2027

Regional Policy – Example: European Cohesion Policy

4. A strengthened link with the European Semester to improve the investment environment in Europe: The Commission proposes to strengthen the link between Cohesion Policy and the European Semester, to create a growth- and business-friendly environment in Europe, so that both EU and national investments can deliver their full potential. This stronger Cohesion Policy support to structural reforms will ensure full complementarity and coordination with the new, enhanced Reform Support Programme.

For the next long-term EU budget 2021-2027, the Commission proposes to modernise Cohesion Policy, the EU's main investment policy and one of its most concrete expressions of solidarity.

Source: European Commission, Regional Development and Cohesion Policy 2021-2027

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Regional Policy – Example: European Cohesion Policy

Source: Politico Europe

Regional Policy – Summary

- Regional policy aims to enhance economic growth as well as economic and social cohesion between different regions.
- An effective regional policy allows for a more even distribution of economic activities across country and prevent a significant concentration (agglomeration) of economic activities in specific (mainly urban) areas.
- Reginal policy might lower costs of production and regional unemployment whilst improving infrastructure, connectivity of the regions and local living standards.

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About the German Economic Team

The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

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