

# SYNTHESIS OF THE COHESION REPORT

## PART I: Situation and trends

### *A narrowing of income disparities in the EU15*

In the EU today, disparities in income (GDP) per head between Member States and, more particularly, between regions, remain considerable. The average income per head of the 10% of population living in the most prosperous regions is, for example, 2.6 times greater than the bottom 10%.

The disparities, however, have narrowed over time. In the three least prosperous Member States (Greece, Spain and Portugal), average income per head has risen from 68% of the EU average in 1988 to 79% in 1999, a reduction of a third in the initial gap. Disparities between regions have narrowed by less, partly because the gaps have widened between regions *within* certain Member States.

Lower income per head at regional level is associated with lower output per person employed, lower levels of education and training – despite significant progress achieved in recent years - less research and development activity and innovation, as well as a slower pace of introduction of the new information and communication technologies. On the other hand, there has been a marked improvement in relative infrastructure endowment in less prosperous regions, a key factor in their longer-term development prospects.

### *A step change with enlargement*

With the enlargement of the Union, the economic landscape is set to change significantly. An analysis of the situation as it stands today points to a doubling of the income gaps between countries and regions, a doubling in the sense that if a Union of 27 existed tomorrow:

- at national level, over *one-third* of the population would live in countries with an income per head less than 90 % of the Union average - the current threshold for eligibility for aid under the Cohesion Fund - compared to *one-sixth* in the present EU15.
- at regional level, the average income per head for the bottom 10% of population, living in the least prosperous regions in EU27, would be only 31% of the EU27 average. In the EU15 today, the income per head of the bottom 10% of population equates to 61% of the average.

At national level, in a Union of 27 the countries separate into three main groups. The most prosperous group comprises 12 of the current Member States of the Union – all except Greece, Spain and Portugal - where income is above average. This is followed by an intermediate group of Greece, Spain and Portugal, together with Cyprus, Malta, Slovenia and the Czech Republic, where income per head is around 80% of the EU27 average, with 13% of the total EU27 population. The real change compared to the Union of today, however, would be the existence of a third group comprising the 8 remaining candidate countries where income per head is around 40% of the EU27 average. This is a significant group accounting for around 16% of the population of the EU27.

As an example, infrastructure in the candidate countries is inadequate in quantity and often of poor quality, while evidence suggests that labour force skills and the kind of education and training provided do not match the needs of a modern market economy. As regards transport, the Transport Infrastructure Needs Assessment estimates the total cost of constructing trans-European networks in these 12 countries at €90 billion, while several studies put the cost of complying with Community environmental standards at €50-100 billion, giving an overall amount of €15-20 billion a year, for the next 10 years, for the two sectors.

In sum, the evidence demonstrates that considerable progress has been achieved in the present EU15 in reducing income gaps between regions, though on past trends it is likely to take another generation before regional disparities are eliminated. Enlargement widens the disparities markedly. Given existing levels of income per head in the candidate countries, convergence between regions in the enlarged Union would take at least two generations if it occurred at the same pace.

#### *Employment: some signs of progress*

Employment in the EU15 rose by over 2 million during the 1990s, but this was not sufficient to significantly increase the employment rate - the proportion of the population of working age in employment - which remained at just over 60%, well below the ambitious objective of 70% fixed for 2010 by the Lisbon European Council. The average figure, however, conceals substantial differences across the Union. Only 4 Member States had an employment rate in 1999 above 70%, while in Greece, it was only around 55% and in Spain and Italy, even lower. 10% of the Union's population lived in regions where well below half of those of working age were in employment (44%).

Despite strong growth of employment of women, mostly in part-time jobs (one woman in three in the Union works part-time), their employment rate was 19 percentage points below that of men in 1999. All of the employment growth in the Union over the 1990s was in services, the largest increases occurring in the most prosperous regions and in high-skilled jobs. At the same time, because of skill mismatches, labour shortages are beginning to emerge in many regions, especially in new sectors of activity and particularly in information technology.

#### *The persistence of wide gaps in unemployment in the EU15*

Disparities in unemployment remain wide in the Union. In 1999, Greece, Spain, France, Italy and Finland had unemployment rates of more than 10%, at least twice the rate in Luxembourg, Netherlands, Austria and Portugal where the figure in each case was below 5%. Regional disparities are much more pronounced: the 10% of population in the worst-affected regions - mostly regions where development was lagging, but some of which were undergoing restructuring - had an unemployment rate in 1999 of 23%, nearly 8 times the average for those in the least-affected regions (3%).

#### *Labour markets in the candidate countries: an incomplete transition*

While there are superficial similarities between labour markets in the candidate countries and the EU15 - in 1999, unemployment averaged 10.2% in the former 9.3% in the latter, while the average employment rate was much the same in the two - there are major underlying differences, which are a legacy of the ongoing process of transition. Five key features are worth highlighting:

- women in the candidate countries are continuing to withdraw from the labour market, though participation rates are still higher than those in most parts of the Union;
- employment in traditional industries remains high even after the loss of 25-50% of jobs over the 1990s;
- agricultural employment, at 22% of the total, is 5 times the average for the Fifteen (4.5%), though its importance varies markedly between the countries;
- labour productivity remains lower than in the EU15 ;
- employment in services has grown significantly, but at a much higher rate in the capital cities than in other parts of the countries.

In sum, the return of stronger economic growth in the second half of the 1990s has generally had favourable consequences for employment and unemployment in the EU15 but the effect in terms of reducing regional disparities in income and employment has been more limited. In the candidate countries, the transition process remains incomplete, with the risk that unemployment could rise in many regions in the period ahead. But the outlook for labour markets in an enlarged Union will be heavily influenced by *demographic trends*. In the EU15, these will lead to an ageing of the labour force and could result in it declining in number after 2010. In the candidate countries the pattern is broadly similar, but an important feature here is the expected growth in the number of young people aged 20-35. In an enlarged Union, this would be an important balancing factor in an otherwise ageing population and labour force.

#### *Social cohesion and the incidence of poverty: a persistent problem*

In 1996, 18% of the population in the Union, or one in six, had income below the poverty level.<sup>1</sup> The countries where the proportion was lowest, Denmark and the Netherlands (11-12%), are also those with income per head above the EU average. At the other extreme, 20-25% of the population in Portugal and Greece had income below the poverty line. The contrast is even sharper in respect of long-term, or persistent, poverty which affects only 3% of people in Denmark and the Netherlands but 12% in Portugal and 10% in Greece.

There are many root causes of poverty and particular groups are especially at risk, including people with low education, old-age pensioners, the unemployed and others not in work, lone-parent families and families with large numbers of children. Many poor families have more than one of these characteristics.

While comparable data for the candidate countries are not yet available, the evidence suggests that rural areas are most affected by poverty.

#### *The territorial dimension: persistent imbalances*

The most important territorial imbalance in the Union today is that between the less developed regions and the rest. At the same time, spatial disparities in the Union reflect a more complex reality than indicated by differences in income and employment between regions. This reality has to do with the potential for development and is implicit in Article 158 of the Treaty, which refers to the need to promote a harmonious development of the Union as a whole.

For the Commission, and for the Member States, this was the rationale behind the European Spatial Development Perspective (ESDP), which was the first coherent effort to clarify the nature of the major territorial imbalances across the Union as a whole. These imbalances and the need to address them assume an added dimension with enlargement, if only because the land area of the Union will have doubled in relation to the early 1990s once the candidate countries have entered.

#### *High geographical concentration of activity in the Union*

Economic activity is concentrated in a core part of the Union situated in the triangle extending from North Yorkshire in the UK to Franche-Comté in France and Hamburg in Germany. While this area accounts for only one-seventh of the Union's land area, a third of the population live there and almost half (47%) of income is produced there. In other comparable economies, like the US, the pattern of activity is more dispersed.

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<sup>1</sup> According to the EUROSTAT definition, which is the proportion of the population with income equal to or below 60% of the median in their own country.

For the EU, this concentration has negative implications not only for peripheral regions but also for the central regions themselves, particularly in terms of traffic congestion and pressure on the environment and health, which could in the long-term offset the apparent advantages.

*Urban areas: growth centres for achieving polycentric development...*

The concentration of population in central areas is reflected in a high degree of urbanisation and a disproportionately large share of the highly skilled functions associated with the knowledge economy being located there: business headquarters, research installations and the most highly qualified workers. The net result is a level of productivity some 2.4 times higher than in peripheral areas. The counterpart of this concentration is that the Union lacks the kind of polycentric pattern of activity which is undoubtedly a factor in the territorial cohesion of the US, in its less pronounced regional disparities in income and employment and, perhaps, in its competitiveness.

*...but with pockets of deprivation*

The Union's urban areas, however, are also those where social and economic disparities are most marked and certain districts have high levels of poverty and exclusion. Differences in unemployment and dependency rates, for example, are wider within some cities than between regions in the Union. (The Commission's urban audit identified a number of cities where unemployment varied by a factor of 10 between districts.)

*Varying circumstances in the rural areas*

The extent of rural areas varies significantly between Member States, from the Nordic countries and Ireland, where two out of every three people live in such areas, to Belgium, Germany and the UK, where only one in eight does.

The population living in rural areas is increasing, if to differing degrees, in all Member States and employment growth is higher there than in the rest of the Union, reflecting their comparative advantages. Equally, however, many remain in difficulty because of their many handicaps.

*Border regions: the problems shift eastwards*

Border regions, which are home to one in four Europeans, often suffer from problems of accessibility and lack of economic opportunities because of the fracture created by an international frontier. With the creation of the single market, backed by cross-border cooperation programmes supported by European funds, for the most part existing internal border regions no longer show significant differences in income per head and unemployment compared to the Union as a whole. In general, the same applies to those regions in the EU15 bordering candidate countries, although there are important differences between the regions concerned. For these regions, the situation could change in the future, in the sense that they are in the frontline in the more competitive circumstances after enlargement.

In the candidate countries, a significantly larger proportion of the population live in border regions (6 out of every 10 people), than in the Union, the main problem areas being in the east along frontiers with third countries.

*Specific areas*

Islands and archipelagos, mountain and peripheral areas - including the 'outermost' regions - are an important part of the Union and share many common physical and geo-morphological characteristics and economic disadvantages. These regions generally suffer accessibility problems which make their economic integration with the rest of the Union more of a challenge. Accordingly, a large number already receive EU regional aid - 95% of both mountain areas and islands are covered by Objective 1

or 2. At the same time, their social and economic conditions vary widely and two of the most prosperous candidate countries are islands (Cyprus and Malta).

## **PART II: Contribution of Community policies to economic and social cohesion**

This part of the Report examines the manner to which Community policies have contributed to cohesion, as stipulated in the Treaty (Article 159), and the implications for enlargement of the Union.

### **1. Economic and monetary integration policies**

#### **Economic and Monetary Union**

*Macroeconomic stability helps to achieve economic convergence*

For high rates of economic growth to be sustained in lagging regions of the Union, it is important that structural policies are allied to macroeconomic policies which ensure financial stability. The establishment of a single currency makes the maintenance of such stability easier to achieve.

Over the 1990s, in the run-up to monetary unification, inflation was reduced considerably in the cohesion countries, especially in Greece and Portugal, from well above the EU average to around 2½%. At the same time, growth of GDP was above average in all four cohesion countries in the second half of the 1990s. Nominal convergence was, therefore, accompanied by real convergence.

This tendency was particularly marked in Ireland, while convergence has occurred more slowly in Spain and Portugal and more recently in Greece.

*The introduction of the Euro makes differences more transparent and capital more mobile*

The introduction of the Euro should lead to increased competition and, therefore, to greater market efficiency. By reducing transaction costs and interest rate differentials, it should lower the price of capital and increase its availability in lagging regions. Capital is likely to flow more easily to areas where the returns are highest, implying that the specific features of different regions will assume more weight in the competition for finance. The least competitive regions will therefore be particularly exposed.

At the same time, regional variations in labour costs will become more transparent, which should help to focus attention on underlying differences in productivity, a major cause of differences in regional competitiveness.

#### **The internal market**

The decisions taken in 1988 and 1992 to strengthen the Union's support to regions with structural difficulties were motivated by a recognition that closer economic integration would not necessarily permit the reduction of regional disparities and could, initially at least, lead to them widening. Cohesion policy therefore sought to help less developed regions benefit from the advantage of European integration and to enable the Union as a whole to fully exploit its growth potential.

The progress achieved towards a more integrated economy, now extending to the applicant countries as well as the present Member States, is reflected, in particular, in convergence of prices across the Union, expansion of trade and growth of direct investment between countries.

*The extent of price convergence differs between sectors*

In contrast to the prices of manufactures, which have tended to converge across the Union, differences persist for most services, which underlines the local nature of markets in a number of sectors.

Convergence towards EU prices also seems to be occurring in the more advanced candidate countries, at least for traded industrial goods.

### *Significant growth of trade*

The EU economy is becoming more integrated into the global economy as well as internally. Closer integration is being accompanied by growing similarity in the composition of trade between Member States.

Trade flows between the Union and the candidate countries have increased markedly during the 1990s, reflecting the progressive move towards a free trade area planned for 2002. The Union already accounts for 60% of total exports of the candidate countries while these account for 10% of Union exports. The composition of trade between the two suggests that they do not compete in the same type of product.

### *Growth of foreign direct investment (FDI)*

FDI is particularly important in some Member States, especially Ireland, Sweden and the Benelux countries. Mergers and acquisitions, which doubled between 1991 and 1999, account for a significant part of this.

Union direct investment in the applicant countries is also growing considerably. Since such flows now amount, on average, to around 5% of the GDP of the recipient countries and some 20% of investment, they have a major impact on their growth and productive potential.

On the other hand, these flows are very small in relation to Union GDP. They seem to be aimed more at supplying the home market than at exporting back to the EU and are, therefore, unlikely to have a depressing effect on employment and wages in the Union.

### *Tendencies to concentration or dispersion?*

A key question concerns the extent to which economic integration is likely to lead to some sectors of activity concentrating in a few regions to exploit economies of scale. In practice, there seems to be a general trend towards concentration in manufacturing, but the extent varies between industries and is occurring at a very slow pace because of the scale of the investment required to change the locational distribution of activities significantly (Ireland and Finland, for different reasons, are exceptions). The risk exists that such a concentration would increase the vulnerability of some regions to external shocks which affect particular sectors concentrated there.

### *The effects of integration and the need for accompanying policies*

The increased competition generated by closer integration and the diminished possibility of protecting local industries are likely to put a premium on technical know-how and to reduce the demand for low skilled workers even further. The response to this should be to raise the levels of education and training of the work force and to orient training towards the skills required in growing sectors. Education policy and active policies for employment and social development therefore have an important role to play in accompanying economic integration.

At the same time, the candidate countries will need to comply with the requirements of the 'acquis' (the body of Community law, including directives, regulations as so on) which is likely to add to production costs and affect the ability of their businesses to compete with those in the present Member States.

However according to the studies which have been carried out, enlargement of the single market to include the candidate countries should have generally beneficial effects for all parts of the Union, especially for those on the two sides of the border between the old and new Member States.

### **Competition policy**

*Competition policy improves the functioning of the internal market*

State aids provided by Member States have a potentially important effect on the regional distribution of economic activity. In the period 1996 to 1998, they accounted for 2½% of total public expenditure in the Union or over 1% of EU GDP (in other words, roughly the same size as the Community budget as a whole) as compared with 0.45% of GDP allocated to EU structural policies.

The scale of expenditure on them, however, varies significantly between Member States. Although the gap narrowed in the latter part of the 1990s, it is still the case, according to the latest figures, that the more prosperous countries spend more than the cohesion countries, so offsetting to some extent the effect of EU structural policies in the latter.

In an attempt to reduce this negative effect, more objective and transparent criteria were established by the Commission during the course of 1999-2000 for defining eligibility for regional aid. As a result, the proportion of the EU population living in regions qualifying for such aid was reduced from 46.7% to 42.7% and assistance has become more concentrated on the most disadvantaged areas. Nevertheless, because of the decisions made by Member States, it was not possible to achieve a better correspondence between the regions eligible for EU structural support and those assisted by State aids.

## **2. The Common Agricultural Policy : prices and agricultural markets**

Successive reforms have greatly changed the concept of the Common Agricultural Policy (CAP) and the way it works. During the 1980s, the CAP was directed at reducing official prices of agricultural produce and compensating for the effects of this on farmers' income through direct payments (direct aids), the use of which was generalised under the 1992 reform. A new reform with two important strands was introduced as part of *Agenda 2000*. First, official prices were lowered with the aim of strengthening the competitiveness of the sector while ensuring a reasonable standard of living for producers. Secondly, a new framework was established for rural development policy, which became the second pillar of the CAP.

### *Significant changes in the distribution of expenditure between countries*

Accordingly, direct aids and support for rural development have accounted for a growing share of total expenditure on agriculture, while only 29% of spending under the EAGGF-Guarantee went on market support and payments to exporters in 1998 as against 82% in 1992.

The CAP, through market support measures and direct aid in particular, involves large transfers between Member States as well as between sectors of economic activity and between social groups.

In 1998, as in 1993, net transfers were positive for three of the four cohesion countries. Portugal, however, traditionally a low beneficiary, remained a net contributor, despite its share of total agricultural expenditure rising from 0.6% to 1.6%. The change in the scale of net transfers, however, differed between Member States. In absolute terms and in relation to their agricultural area, three Member States (France, Germany and Spain) absorb over half of EAGGF-Guarantee expenditure. On the other hand, if transfers are expressed in relation to agricultural employment, Denmark and Belgium are the main beneficiaries.

### *But very different regional effects*

The level of support to agriculture has increased in relation to the number employed in all regions of the Union, largely because of a continuing fall in employment. Overall, the 1992 reform has not radically altered the distribution of support between regions, although it has increased the amount going to regions producing cereals, oil seed and beef, so to many regions in France, Spain and Ireland. Support to producers is lower in the least prosperous regions.

There remains a marked difference between the southern and the northern regions in respect of the economic size of agricultural holdings. The average size of those located in the 20 regions with the smallest size of holding (all situated in the south) declined by just over 2% between 1993 and 1997. At the same time, it grew by almost 25% in the 20 regions with the largest size of holding, all these being in the north.

### **3. Horizontal policies**

#### **Employment policy and the development of human resources**

Although Member States are responsible for developing and implementing employment policies, there is a clear need for coordination, elaboration of common objectives and exchange of information at the Union level. This is the reason why a European Employment Strategy was launched in the Treaty of Amsterdam in 1997, with priority being given to active labour market measures. Its most visible component is the 'Luxembourg process,' within which the 'employment guidelines,' adopted by the Council each year, are translated into 'National Action Plans' (NAPs) in each Member State. These are then evaluated annually in the 'Joint Employment Report,' adopted by the Commission and the Council.

#### *The Luxembourg process*

The Luxembourg process is based on four operational pillars: employability of the labour force; development of entrepreneurship; adaptability of enterprises and those in employment and support for equal opportunities. The objective of policy is two-fold: to reduce unemployment and increase employment, in part to ensure the long-term sustainability of the European social model. These objectives were confirmed by the European Councils in Lisbon and Nice.

In addition, after the Nice European Council, a process for the coordination of national plans for social inclusion was begun.

Although it is difficult to identify the specific contribution of the Employment Strategy, the favourable employment developments which have occurred in the recent past seem to suggest that a virtuous circle has been created, in which Member State macroeconomic policies of stability and structural reform are an important part.

#### *Regional disparities in employment and unemployment*

Labour market performance continues to vary widely between regions, which suggests the need for the development of a regional and local employment strategy.

Labour shortages are beginning to appear in a number of Member States at the same time as unemployment remains high, reflecting the mismatch between the jobs on offer and the labour skills available. This requires action both to raise the level of education and training and to direct it to towards sectors of activity in which the demand for labour is growing, while ensuring that priority is given to groups at risk. Despite the general increase in levels of education, too many young people still leave school without adequate qualifications. There is also a need to reduce the risk of exclusion of those with low skills from the technological revolution. All the NAPs include specific measures aimed at target groups for tackling this problem.

Improvements can be identified in the way Member States address equal opportunities, especially in Finland and Ireland. Nevertheless, more could be done in many countries.

#### *2002: Evaluation and new proposals*

In the proposed employment guidelines for 2001, the Commission has focused on achieving full employment, the role of the social partners, continuing training throughout a person's working life and social inclusion. An overall evaluation of the results of the strategy and of the objectives will be carried out in 2002.

## **Environmental policy**

The pursuit of economic and social cohesion and the protection of the environment are complementary objectives. Even though environmental protection may initially increase the costs of production or, more accurately, make them more visible, the effect should not be overestimated. The cost of implementing all the directives on water and waste treatment as well as the measures resulting from the Kyoto conference should amount to only around 0.5% of Union GDP.

Environmental protection should not be regarded solely as imposing costs on the economy, but equally as a means of improving the quality of life, especially in problem urban areas.

*Higher costs, but also advantages for least prosperous regions...*

In the case of policies on water and waste, which are critical for environmental protection, there needs to be considerable investment to tackle problems in the cohesion countries and the least prosperous regions. The Structural and Cohesion Funds will help cover the cost of this in lagging regions and bring standards up to those elsewhere.

*... for the weakest social groups...*

The cost of environmental protection, as in the case of implementing the framework directive on water, will sometimes fall on the weakest members of society, because of the transfer of some of the costs involved on to users, notably on to households and farmers, under the 'polluter pays' principle.

The measures involved, however, also contribute to social cohesion, in respect of public health and in terms of the jobs created. Although the likely effect on employment seems modest at the Union level, several tens of thousands of jobs could, nevertheless, be created over the next few years as a result of the directives on water and waste treatment.

*...and for the candidate countries*

The candidate countries face the same problems as the cohesion countries but to a greater extent, particularly in respect of waste treatment. The Union is already helping to finance the investment required through ISPA and after accession, this will be one of the priorities for the Cohesion Fund.

## **4. Other Community policies**

### **Research and development**

The Community research and technological development policy (RTD) is focused on the pursuit of excellence in order to strengthen the Union's position in relation to its international competitors. In terms of territorial balance, the establishment of a *European Research Area* opens up further prospects for integrating research and regional development.

*A more even distribution of knowledge...*

By requiring the involvement of partners from several Member States, the Framework Programme helps improving the exchange of knowledge and the joint development of technologies. The proportion of projects involving at least one participant from an Objective 1 region has risen from 27% in 1994 to 41% in 1998. In the cohesion countries, however, participants tend to be located in the centres of excellence in the capital cities or most prosperous regions.

*...greater mobility of researchers...*

The cohesion countries are well represented in programmes designed to encourage the mobility of researchers, many of whom are given an opportunity to spend time in non cohesion countries'. This, however, should not lead to a brain drain towards central areas, where research is already concentrated, which could compromise balanced territorial development in Europe, a problem which might also arise in the candidate countries.

*...and a need for new approaches in disadvantaged regions*

It is important to create in lagging regions the proper framework conditions for research and innovation. Improvements in the international career opportunities of young researchers and an increase in RTD resources are not sufficient by themselves to expand their innovative capacity. In these regions, it is important to create more career opportunities for researchers.

### **Transport policy**

The objective of the common transport policy is to ensure access throughout the Union to suitable transport services which respond to user demand.

*More efficient use of resources*

With the entry of new Member States, there will be an even greater need to use Community resources more efficiently, which means better assessment of alternative projects, increased mobilisation of private sources of finance, greater utilisation of existing capacity, improvements in the quality of service and more respect for the environment. On this last point, new technologies, like intelligent transport systems and intermodal equipment, can radically reduce the negative effects of transport.

*The trans-European transport networks*

The trans-European transport networks are improving access to remote peripheral regions and islands, opening up border areas through the construction of new routes across natural barriers and achieving a better balance of activity along the coastline.

Community measures need to be aimed at ensuring the mobilisation of public and private organisations and companies to carry out the investment required for constructing the network defined in the 1996 Guidelines.<sup>2</sup> It is also necessary, however, to introduce major modifications to the guidelines. A first step has been made in this direction by including ports in the plans and other changes are foreseen to equip lagging regions and to improve the distribution of the major traffic flows in the Union. There is also a need to tackle the growth of goods transport by road which threatens sensitive areas and already congested routes for long distance haulage, this means putting in place a genuine European freight network, based so far as possible on rail and waterway.

The continued construction of high-speed lines coupled with a trans-European network of airports will provide fast international travel which is essential for reducing the territorial fragmentation of the Union, while the progressive introduction of quality and safety standards harmonised at the EU level is also a major aim of policy.

Trans-European transport networks, therefore, have an important effect on territorial development and regional disparities, as well as on the distribution of activity, the functioning of the labour market and trade flows, as emphasised by the European Spatial Development Perspective (ESDP).

## **Energy policy**

*Energy: an important factor in competitiveness and sustainable development*

There should be no marked differences between regions in the availability of energy and prices. Despite the efforts undertaken, however, there is not yet a single market for energy in the Union.

Common rules for environmental protection are still in embryonic form and their implementation could have positive or negative effects on particular sectors of activity and regions. Sustainable development requires an intensification of programmes for increasing energy efficiency – but also an improvement in the means for managing and controlling atmospheric emissions and the application of market mechanisms to encourage this. There is also a need to introduce legislation which encourages the use of renewable energy sources.

*Dependency and the need for diversification*

The extent of dependence on external sources is a constraint on development in the Union as a whole. This dependency, which is set to increase if the use of renewable sources and more rational energy use are not encouraged sufficiently, could well penalise lagging regions the most in the event of a supply shock.

## **Enterprise policy**

The Lisbon European Council set the Union the objective of becoming the ‘most competitive and dynamic, knowledge-based economy in the world.’ To attain such a goal, and to support employment creation, requires entrepreneurship to be encouraged and an environment favourable to change and innovation to be developed.

Enterprise policy is intended to help achieve this objective for the whole of the Union, without distinguishing *a priori* between different areas. Nevertheless, certain measures address problems which particularly affect lagging regions. These include help in accessing risk and start-up capital (especially for SMEs), policies for the diffusion of innovation and entrepreneurial best practice, and support for tourism, often a key sector for the development of these regions.

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<sup>2</sup>

Decision 1692/96/CE.

## **Common fisheries policy**

The Common Fisheries Policy is focused on four major areas: the conservation of fish stocks, the restructuring of the fleet, the organisation of markets and fishing agreements with third countries. While the sector is small relative to the EU economy as a whole (accounting for only 0.2% of GDP and 0.4% of employment in 1997), concentration in coastal and peripheral areas (including the outermost areas) gives it a particular importance for regional development. These areas are in many cases disadvantaged, 70% of fishermen and 60% of total employment in the sector being located in Objective 1 regions in 1997.

Because of this concentration, many of the measures supported by the Common Fisheries Policy, which are intended to strengthen the competitiveness of the sector, contribute to economic and social cohesion, particularly fishing agreements with third countries as well as measures on fish farming and processing.

The restoration of a sustainable balance between fish stocks and fishing will necessitate a significant reduction in capacity, catches and the number of fishermen. Accompanying social and economic measures to maintain employment in areas dependent on fishing and their viability (restructuring within and outside the sector, vocational retraining, and so on) will become increasingly necessary. This is the aim of the Financial Instrument for fisheries Guidance (FIFG).

## **PART III: Economic and social cohesion policy: the results**

Over the ten years since the reform of the Structural Funds, significant progress has been made in terms of convergence and cohesion in the Union.

### **Impact of structural policy since 1989**

#### *Increased financing*

The finance made available through the Funds almost doubled between 1989 and 1999, rising from 0.27% of EU GDP to 0.46%. The transfers were most pronounced in the cohesion countries, the main beneficiaries, equivalent to over 10 years to 1.5% of GDP in Spain, 3.3% in Portugal and 3.5% in Greece. In Greece and Portugal, Community transfers represent over 10% of investment.

#### *Increased financial and geographical concentration*

Following the decisions taken by the Berlin Council in the perspective of the first stages of enlargement, the amount of finance allocated to cohesion policy in the present 15 Member States will be reduced by 2006 back to the level in 1992 – 0.31% of GDP of the present EU15.

The concentration of finance in lagging regions will, nevertheless, enable the average amount of aid per head to be maintained for the period 2000 to 2006 at the same level as in 1999. Overall, 60% of the total of the Structural and Cohesion Funds will be allocated to Member States, which, together, account for no more than 20% of EU GDP and 70% will be concentrated in lagging regions.<sup>3</sup>

The geographical concentration of Structural Fund intervention on the regions most in difficulty has never before been as high, only 41% of the EU15 population living in regions eligible under Objective 1 (lagging regions) and Objective 2 (regions undergoing restructuring) in 2006. Nevertheless, concentration is limited, on the one hand, by the high degree of fragmentation of areas eligible under the new Objective 2 and, on the other, by the lack of coherence with the map of State regional aids.

#### *The impact of structural policies: positive but uneven effects*

Between 1988 and 1998, the difference in income per head between Objective 1 regions and the EU average narrowed by one-sixth, GDP per head in PPS in the former increasing from 63% of the average to 70%. Within this general trend, a number of regions, in particular those in Ireland, the new German Länder and Lisbon, have performed better than the average. Nevertheless, rates of employment and unemployment at the regional level have shown little sign of converging.

In the case of Objective 2 and 5b regions, available data seem to indicate that employment and unemployment tend to have changed in a more favourable way than in the rest of the Union. In particular, the average unemployment rate in Objective 2 areas declined by 2.2 percentage points over the period as compared with 1.3 points in the Union as a whole.

Over the period 1989 to 1999, structural intervention had a significant effect in Greece and Portugal, GDP at the end of the period being an estimated 9.9% higher in the former and 8.5% higher in the latter as result of intervention. The effect was less in Ireland (3.7%) and Spain (3.1%), the Structural and Cohesion Funds forming a smaller proportion of GDP there. This significant contribution to growth was accompanied by more limited effects on the level of unemployment especially in Ireland and Spain.

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<sup>3</sup> Regions where GDP per head is below 75% of the EU average.

### *Strengthening factors underlying competitiveness*

The Structural and Cohesion Funds do not only stimulate demand by increasing income in the regions assisted. By supporting investment in infrastructure and human capital, they also increase their competitiveness and productivity and so help to expand income over the long-term. Structural intervention, therefore, tackles the root causes of regional imbalance and is aimed at strengthening the factors which provide the basis for sustained growth. Improving systems of transport, supporting SMEs, RDT and innovative capacity, strengthening education systems and improving the environment have, therefore, been the main focus of intervention.

Transport infrastructure has expanded significantly, investment co-financed by the Structural and Cohesion Funds achieving time savings of, for example, 20% in Spain, through an improvement in the motorway network, and 70% in Portugal in the case of rail freight.

Around a sixth of firms located in Objective 1 regions were recipients of support to SMEs, creating over 300,000 new jobs. In the case of Objective 3, the rate of placement of people who had followed a training programme varied between 25% and 50% according to the country and the groups targeted.

### *Improving employability in the Union*

While the human resource measures taken under Objective 1 have contributed to the development of the regions concerned, those taken under Objective 3 have helped young people, the long-term unemployed and those threatened by exclusion to find employment. However, the modest scale of Community funding in relation to national expenditure has often weakened the specific targeting of measures in a context in which national employment priorities tend to take precedence. Although co-financed measures tend to be more effective the more they are concentrated on those who have the greatest difficulty finding employment, targeting on the most vulnerable groups has remained limited. Nevertheless, over the period 1994 to 1999, the placement rate of recipients who participated in training measures increased, the rate varying between 30% and 80%. As regards Objective 4, which had a slow and difficult start, some of the evaluations undertaken suggest that the benefits were divided between an improvement in the competitiveness of firms and an increase in the skills of some categories of worker.

### *Community Initiatives: their cross-border and transnational nature increases the added value for the Community*

Community Initiatives have enabled a common approach to recurring problems in the Union to be developed. The development of cross-border and transnational cooperation, under INTERREG, and the strengthening of partnership at local level, which is a feature of LEADER and URBAN, are of most significance in terms of Community added value.

### *Structural Funds procedures : increased efficiency of public intervention*

Medium-term strategic programming has had a significant influence on national and regional development policies.

The Structural Funds have also helped spread the use of evaluation of public intervention and of linking the results achieved more clearly to the finance allocated. The advances made in this respect, however, vary between Member States.

Community assistance is an effective means of mobilising private capital as well as loans, especially from the European Investment Bank, as witnessed by major infrastructure projects in Greece.

The principle of partnership has enabled local elected representatives, social and economic organisations, non-government organisations and associations to be more involved in decision-making. However, apart from the formal respect for the obligation, the extent of partnership in practice has differed greatly.

Financial procedures have often proved complex and a source of payment delays.

## **Prospects for the 2000-2006 programming period**

### *A renewed effort to ensure the added-value of Community intervention*

With the new regulatory system for the 2000 to 2006 period, the Commission has attempted to increase the added-value of Community intervention and to improve its visibility on the ground. Four elements are worth highlighting:

- a better formulation of Union priorities with the adoption by the Commission of guidelines for Structural Funds intervention, even if these guidelines remain ‘indicative’ at the request of the Member States;
- the obligation, as clearly indicated in the legislation, to mobilise partnership at different stages of the programming process ;
- the formulation and diffusion of ideas on Community policy, notably through the establishment of the European Spatial Development Perspective (ESDP), published in 1999 ;
- taking into account the employment strategy, to reinforce and to improve job quality.

### *Prospects for Objective 1 regions*

Because of the slight reduction in assistance in relation to the preceding period decided by the Berlin European Council, the effect of structural intervention on economic growth will be smaller than in the past, especially in Spain, Portugal and, above all, in Ireland. The effects on investment, however, will remain significant, especially in Portugal and Greece, giving rise to long-term gains in productivity.

In other Objective 1 areas, especially the new German Länder and the Mezzogiorno, the effect of the Structural Funds on the supply side should be significant, though smaller than in the previous period.

### *A strategy focused on the factors underlying competitiveness*

The Community guidelines have made it possible to adjust the focus of regional development strategies for the 2000 to 2006 period. In general, there is increased emphasis on structural factors underlying competitiveness which determine the long-term growth of Objective 1 regions, in particular, research and innovation, information technology and human capital.

Other modifications involve, for example, an improved balance between means of transport in favour of rail, a reduction in direct payments to firms and greater attention given to environmental considerations and sustainable development in the formulation of policy, to urban areas and to equal opportunities.

### *The challenge of more effective management*

The role of evaluation was strengthened by the 1999 reform, especially through the introduction of the performance reserve which will be allocated in 2003 on the basis of the results of the mid-term evaluation. Evaluation has, therefore, become a management instrument in its own right.

It is premature to draw lessons from the simplification resulting from the new regulatory system. Indeed, the process of approving programmes by the Commission has not yet been completed. The Commission's role has been refocused on the strategic aspects of programming. Accordingly, in the negotiations with the Member States and regions concerned, it examines the priorities proposed particularly carefully while decentralising implementation largely to the Member States and the relevant administrative authorities.

A first assessment of the effects of decentralisation will only be possible after a few years. The focus of this should be on verifying whether decentralisation has benefited Member States and regions and on identifying the measures which need to be taken in order further to increase simplification in programming and management.