

Promoting European Cohesion and Prosperity into the 21st Century

A Scottish Contribution to the Reform of the EU's Structural Policies

April 1997

Charlie Woods

Networking Scotland in Europe

SCOTLAND EUROPA ★

www.scotlandeuropa.com

Paper No. 11
April 1997

**Promoting European Cohesion and
Prosperity into the 21st Century**

A Scottish Contribution to the
Reform of the EU's Structural Policies

Charlie Woods: Chief Executive, Scotland Europa

CONTENTS

Executive Summary

- A Introduction
- B The case for European Union Structural Policies
- C Measuring Cohesion
- D The Impact of Structural Policies
- E Key Issues for Structural Policies in the Future
- F Policy Objectives for 2000-05
- G Comparison with Existing Objectives
- H Budgeting for Structural Policies
- I Operating Structural Policies
- J Conclusions

Annex 1: The impact of the Strathclyde Integrated Operation

Annex 2: A Transition to Prosperity Initiative

Executive Summary

Introduction

This paper aims to provide a contribution from a Scottish perspective to the debate on the reform of the EU's structural policies for the period 2000-05. It has been written following discussion with Scotland Europa's members, who are drawn from industry, education, trades unions, local authorities, public agencies and voluntary organisations.

Structural policies have already had a very significant, positive impact in promoting economic and social development in the EU. There is a strong economic, social and political rationale for the EU to continue to pursue structural policies for 2000-05 at a level comparable to current policies.

European countries and regions do not aspire to be assisted by EU structural policies as an end in itself. They aspire to be able to offer a reasonable standard of living to all of their citizens and to be able to make a positive contribution to the economic and social cohesion of the EU. Structural funds investment has a vital role to play in achieving this aspiration.

GDP per head remains the best available overall measure of cohesion in the EU, however, its use should be supported by other qualitative and quantitative data. Analysis of regional economic performance should consider trends over sufficiently long time periods and should be focused on appropriately sized, coherent economic regions.

i) Objectives and budget

Structural policy objectives for 2000-05 should allow for a reasonable degree of continuity in what are long term development programmes. They should focus on:

- Underdeveloped regions in existing and new Member States*
- Regions undergoing major industrial restructuring*
- Human resource development across the EU*
- Development in rural areas*
- Development in peripheral regions with sparse populations*

Sustainable development and equality of opportunity should be priorities within all objectives where appropriate.

A “Transition to Prosperity Initiative” should be launched in the next policy period to assist regions that cease to be eligible for mainstream support complete the transition to prosperity.

*In the light of revised world trade agreements and EU enlargement, consideration should be given to bringing together the key EU policies effecting rural areas within **a rural and agricultural policy framework** over the period 2000-05.*

A few highly focused initiatives at EU level should remain to promote innovation and trans-national programmes and respond to emergencies.

These objectives and initiatives could be financed within a budget which remains a constant proportion of GDP.

ii) Operations

*Many lessons can be learned from experience to date to improve the operation of programmes. **Simplicity, cost-effectiveness and accountability** should be the goals in this regard.*

Coherent programmes designed and managed by regional partnerships should continue to be at the core of implementing structural policies.

In line with the principle of subsidiarity, partnerships should be given greater discretion to plan and manage programmes within broad guidelines.

Guidelines should be set out in advance of programme planning, should be consistent across regions and should offer continuity over time.

Greater local management discretion will require an effective evaluation process. This should be focused on the measurement of outputs relative to cost, rather than the measurement of inputs.

Stronger links with other relevant EU policy areas should be forged.

Over concentration of 'eligible areas' should be avoided.

Funds should be amalgamated at an administrative level to provide a simpler payment system and allow a greater link to strategic priorities.

Programmes should aim for more effective financial engineering. This would involve the greater use of loans and performance grants, more direct private sector involvement and the recycling of funds.

Wherever a region ceases to be assisted a process of transition of at least three years should be used.

Consideration should be given to relaxing the de minimus state aid levels for SMEs.

A contingency reserve should be held back to respond to emergencies.

A. Introduction

The European Union's structural policies are the cornerstone of its activities to promote the objective of economic and social cohesion set out in the 'Treaty on European Union'. There continue to be strong economic, social and political grounds for the EU putting balanced economic development and converging economic performance, alongside the promotion of a prosperous and competitive Europe, at the top of its agenda.

The reform of structural policies for the period 2000-05 - a period which will probably begin to see a significant enlargement of the Union - is an excellent opportunity to ensure that policies which currently take up around a third of the EU's budget are appropriately designed to promote European cohesion and prosperity in the future.

This paper offers some ideas from a Scottish perspective on how the objectives and operation of structural policies could be tailored to make the most of the circumstances faced by the EU as it enters the 21st century. It has been written following discussion with Scotland Europa's members who are drawn from industry, education, trades unions, local authorities, public agencies and voluntary organisations. It is intended as an initial contribution to what will be an evolving debate on the reform of EU structural policies for 2000-05.

At the outset it is important to appreciate that European countries and regions do not aspire to be assisted by EU structural policies as an end in itself. They aspire to be prosperous, to be able to offer a reasonable standard of living to all of their citizens and to be able to make a positive contribution to the economic and social cohesion of the EU. Structural funds investment has a vital role to play in achieving this aspiration.

B. The Case for European Union Structural Policies

Any policy review needs to start from a consideration of the underlying rationale for the policy. The Commission's recent Cohesion Report¹ set out the following case for EU structural policies:

- to compensate for major inequalities in the capacity of regions to generate income and in the ability of different social groups to compete effectively in the labour market.
- to ensure that neither regional location or social position are permitted to circumscribe life chances.

¹ European Commission, "First Report on Economic and Social Cohesion", 1996.

The **economic case** for EU structural action involves both equity and efficiency arguments; compensation for disadvantage alongside investment for development. Structural action aimed at regions therefore should involve:

- investment to make optimum use of Europe's economic resources.
- avoiding the costs of over-congestion in successful areas.
- helping regions escape from the problems of underdevelopment and structural change, so that they don't become locked in a downward spiral of decline.
- exploiting Europe's regional diversity by helping regions perform to their full potential, in order that they can contribute to Europe's overall economic development.

Much of this rationale also applies to the internal regional policies in individual Member States. The justification for EU policy also involves other issues. The most obvious European dimension comes from the potential side effects of other EU policies. For example, a possible danger of the single market is that it will exacerbate the disadvantages of some areas by facilitating the movement of people and capital to areas that are already successful, where wages and returns on capital are higher. This is also likely to result in the under-utilisation of resources in disadvantaged regions alongside increased costs in expanding regions. A single currency may well increase this danger. Action to counteract this forms a large part of the economic case for EU action and has been one of the main reason for the large increases in the size of the structural funds over the last decade. These factors will remain a threat to cohesion in the future.

Another European dimension, highlighted recently by the Commissioner for Regional Policy², is the contention that most, if not all, of the national economies of Europe are not strong enough to master major structural change on their own. European support and co-operation is seen as being vital to help regions overcome the challenges of globalisation and to enable them to compete internationally. Finally, European involvement is also needed to take full advantage of the opportunity for trans-national initiatives offered by EU membership.

The **social case** for structural policies is based on ensuring that all Europe's citizens, regardless of their circumstances, have an equal opportunity to participate in and contribute to Europe's development. It also involves helping ensure regional diversity in Europe, which, as well as adding to the overall quality of life in the EU, will also help sustain Europe's economy in the future. This is not dissimilar to the importance of bio-diversity for environmental sustainability.

The social case is closely linked to the **political case**. If there is insufficient political solidarity, as a result of weak social cohesion, then the widespread political support needed for successful co-operation in Europe will also weaken. This sort of solidarity is

² In a speech at the Centre for European Reform, London, 27 January 1997.

required with the poorest Member States, with the disadvantaged regions of the richer Member States and with disadvantaged individuals everywhere in the EU.

C. Measuring Cohesion

Understanding the nature of differences in relative economic and social performance is critical to policy development. GDP per head is currently the main indicator used to measure economic and social divergence between regions in the EU.

This measure has some drawbacks and may not cover all dimensions of the cohesion problem. For example, it can overstate the prosperity of a region with a relatively small population if there is a large production facility with high output that does not feed directly into the local economy, e.g. the effect of hydro-electric plants in Sweden.

Nevertheless, a region's overall prosperity is best measured by reference to its ability to generate income and GDP per head provides the best available measure of this that is transparent and comparable across the EU. Other measures such as unemployment rates and activity rates tend to be more limited in what they reveal. For instance, low unemployment rates can mask problems of underemployment and low productivity in some countries, e.g. Portugal and Greece. GDP per head therefore appears to provide the best overall assessment of a region's relative economic well-being.

However, it is important not to rely solely on one indicator in assessing the relative performance of a region. Other quantitative data should also be taken into account to give as complete a picture as possible, e.g. data covering labour market exclusion and employment change. Qualitative data can also add a lot. This is particularly so regarding issues such as unrealised economic potential, environmental sustainability and social cohesion. However, such factors are much harder to compare across the EU.

Another important aspect of measuring economic and social cohesion is the time frame used. Structural policies are about long term changes to the structure of the European economy, which has evolved over many years. Therefore, it is appropriate to use a long time series of data (at least ten years) to make assessments about the relative economic condition and prospects of different regions.

The boundaries for regions that are used will also have an important bearing on the results of cohesion analysis. Economic boundaries should play a more important part than administrative divisions in identifying eligible regions. Analysis should focus on coherent economic regions, which will encompass a mix of opportunities and problems and provide a viable platform for regional development programmes. In some cases analysis of performance at the regional level can be supplemented and illuminated by a more geographically focused approach. For instance, when aiming at pockets of severe

disadvantage that can often be lost in a wider regional analysis³. Such analysis can be particularly valuable in ensuring that a full picture of a region's economic well being is obtained.

D. The Impact of Structural Policies

Any review of an existing policy has to have some regard to the impact of the policy to date, not least to help justify future action. The precise impact of EU structural action to date is difficult to determine, particularly at a macro level. This is because of factors such as the timescales involved, the difficulties in distinguishing the impact of specific programmes from other influences and estimating what would have happened in the absence of action.

The recently published Cohesion Report appears to demonstrate that improvements in relative economic performance have been most marked at Member State level, with GDP per head in the four poorest Member States increasing from 66% to 74% of the EU average over the past decade. However, the experience at a regional level is less clear, with GDP per head in the 25 poorest regions rising from 53% to 55% of the EU average (the Objective 1 regions went from 64.6% to 67.2%).

Although the precise macro impact of structural policies may be uncertain, at a micro level the number and range of projects supported by EU action implies a significant impact on the infrastructure and development prospects of many parts of Europe. This is exemplified in the Commission's recent publication, "Regional Success Stories"⁴. Given the nature of projects supported by the Structural Funds (i.e. being involved in investment rather than consumption) it is likely that money already invested will continue to have a positive impact for many years to come.

This positive impact has also been amply demonstrated by recent studies of the outputs of Structural Fund programmes in Scotland⁵. These studies emphasise the crucial contribution of EU programmes to the infrastructure, training, business development and other economic and social development programmes in Scotland. They also highlight the important impact of EU programmes on the institutional infrastructure that promotes economic development in Scotland.

³ For example, the wider Glasgow Travel to Work Area had an unemployment rate of around 9% in the winter of 95/96, while the city of Glasgow had an unemployment rate of over 16%.

⁴ European Commission, "Regional Success Stories: Profiles of 36 projects in Europe", 1996.

⁵ For example: Strathclyde European Partnership, "Strathclyde Integrated Development Operation: Final Report as at December 1994", July 1996 (Annex 1 summarises the results the analysis of the ERDF Programme for 1988-92 set out in this report); and "the Governance of European Structural Funds - The Experience of Scottish Regional Partnerships", Profs. Danson, Fairley, Lloyd and Turok, Scotland Europa Centre Paper, March 1997.

In broad terms structural fund programmes in Scotland and other parts of the EU have resulted in:

- Additional projects
- Better quality projects
- Projects brought on stream earlier
- Stronger development partnerships
- A shared strategic vision

This impact of the structural funds in Scotland was further emphasised recently by the Competition Commissioner when he drew attention to the way in which structural funds had been used to assist major industrial restructuring in Scotland in the wake of the run down and closure of the steel industry⁶.

This is not to say that improvements can't be made to policies both in terms of the objectives they address and the way in which they are operated, but the impact of EU programmes to date should not be underestimated. The remainder of this paper looks at improvements which could be made to EU structural policy in the future, taking into account experience to date and the changing environment in which structural policy will have to operate.

E. Key Issues for Structural Policies in the Future

Determining the most appropriate objectives for structural policies requires consideration of the key issues that will influence cohesion and prosperity in the EU in the forthcoming period. The following issues would appear to be particularly important:

- **International Competition** - The world is growing ever more integrated, both in terms of trade and investment. For regions to prosper they must be able to compete internationally. Even companies that don't trade internationally will be effected by international trends and improvements in production techniques. This means that structural programmes must have a global dimension.
- **Technology** - The level and pace of technological change will continue to grow. This will impact on all aspects of economic development. In terms of regional development, advances in information technology are likely to transform the nature of spatial economic relationships. In some cases this could be beneficial, allowing previously outlying areas to become more involved in various economic activities. In others it may harm certain regions by further concentrating information alongside

⁶ Interview with Karel Van Miert in *Le Soir Illustré*, 29 January 1997

labour and capital in the traditional economic centres. IT could also result in a run down in local service provision as more can be supplied remotely. This may be particularly evident in education and health services. For areas that rely heavily on public sector employment this could have severe consequences.

- **Economic and Monetary Union** - Despite many potential benefits EMU could well intensify the centralising forces that tend to draw economic activity to the more prosperous parts of Europe⁷. This will effect regions in different ways, but if it occurs it will increase the fragility of regions on the economic periphery of Europe.
- **Enlargement** - If enlargement to the east proceeds as anticipated then up to twelve new members, with a combined population of up to 100mn, could join the EU by 2010. Despite the progress that is being made in these countries, it is likely that the economies of many, if not all of the regions in each of the prospective new members will still be performing significantly below the EU average when they join, and will require a number of years to catch up. Given the stage of development that many of these regions have reached it is also possible that they will provide increased competition for industries in many of the underdeveloped regions in existing member states.
- **Underdevelopment** - There are still many regions in existing Member States where prosperity is well below the EU average. These regions will require continued support to help them to catch up and begin to make a full contribution to Europe's development. In most cases support should involve investment for development, in some cases ongoing compensation for disadvantage will also be needed to sustain communities. Some compensation for disadvantage will also be likely in new members and sparsely populated regions.
- **Industrial restructuring** - Despite significant progress in restructuring that has already been made with EU support, many of the traditional industrial areas that generated the wealth that was the foundation of modern Europe are still economically fragile. These areas continue to exhibit below average output and above average unemployment and other forms of labour market exclusion. Care needs to be taken to build on the progress that has already been made to help ensure a lasting revival which will allow these regions to contribute further to Europe's prosperity in the future. It is also important that the potential problems of industrial restructuring in the future should not be underestimated. The growth and decline of industries is a dynamic process that never ends; many of today's sunrise industries will be the sunset industries of the future.

⁷ "Monetary Union and Regional Development", Gavin McCrone, Bank of Scotland Colloquium Position Paper, April 1996.

- **Economic potential in ‘transition regions’** - Those areas that have benefited from policy in the past yet whose economic well-being remains below the EU average offer many opportunities to contribute to Europe’s overall development and to move from dependency to prosperity. This potential will only be realised with the right level and type of investment. EU action could play a crucial role in pump-priming this investment. Not only would such action give a final push towards prosperity, it will also help consolidate gains and prevent these regions from slipping backwards.
- **Urban areas** - Europe’s concentrations of population will continue to graphically demonstrate the two extremes of the economic development process. On the one hand they will remain important motors of economic development and could become increasingly attractive locations for economic activity in the knowledge economy and in tourism and leisure. On the other hand urban areas will also remain home to major concentrations of economic and social exclusion, where vicious downward spirals of decline can become firmly entrenched. Where urban problems are very pronounced they can also act as a drag on the overall development of the surrounding region. Successful development therefore needs to take account of both the positive and negative aspects of urban areas.

- **Human Resource Development**

Human resource development has been identified by the Commissioner for Employment and Social Affairs as the greatest single challenge facing Europe in the 21st Century⁸. The Commissioner has highlighted the need for an education, labour market and employment system which can guarantee the quality of labour force to allow Europe to be competitive. He has also emphasised the important role that human resource development policies can play in promoting social cohesion. Two issues are particularly important in this regard:

- **Unemployment/Social Exclusion** - There are still very high levels of unemployment across Europe. This is extremely damaging to social cohesion and represents a major waste of economic resources. Long term unemployment and youth unemployment are a particular problem in this regard. In addition concentrations of very high unemployment, particularly when coupled to other forms of exclusion from the labour market (e.g. long term sickness) and wider problems of deprivation, are intensifying the problem of social exclusion across many parts of Europe.

⁸ Mr Padraig Flynn, “The European Social Fund: Starting a New Millennium”, Speech to the Centre for European Policy Studies, 24 March 1997.

- **Employee adaptability** - The rapid economic changes brought about by such factors as new technology and the globalisation of markets, while being of overall benefit to the EU, can often have severely adverse effects on particular groups of employees. Action in advance to help address potential problems, will make the most of human resources and avoid adding to economic and social divergence.
- **Rural/Primary industries** - Many of Europe's rural areas continue to be economically fragile with their future tied closely to the agricultural, forestry and fishing industries. Pressure to reform agricultural policy to accommodate world trade agreements and EU enlargement are likely to have a significant impact on many rural areas. While, pressure on the fishing industry as a result of EU policies to conserve fish stocks is already having an adverse impact on many areas.

The Commission's Cork Conference ("Rural Europe - Future Perspectives") discussed many of the important issues relating to rural development and the 'Cork Declaration' identified a number of ways forward⁹. These were highlighted in a recent speech by the Agriculture Commissioner, in which he stressed the need for an integrated policy for rural areas which strengthens links between the CAP and other Community policies, with the aim of promoting the sustainable development of rural areas¹⁰.

- **Peripherality/ Sparse population** - There are a number of regions on the northern and western periphery of Europe whose development and potential contribution to EU prosperity is constrained by their sparse population and distance from major centres of economic activity. Commission analysis¹¹ has identified a strong correlation between peripherality and below average income.
- **Sustainable Development** - Action to promote economic development needs to be pursued in a way which is environmentally sustainable. While the goal of development and sustainability are often portrayed as contradictory, in practice they are becoming increasingly complimentary, not least where quality of life will play a great role in enhancing a regions attractiveness for investment and tourism. Building a strong link between EU's structural policies and environmental policies¹² will be very important in this respect. The Strategic Environmental Assessment of the Highlands and Islands Objective 1 Programme is a good example of how this can be taken forward.

⁹ "The Cork Declaration - A Living Countryside", November 1996

¹⁰ Dr Franz Fischler, Speech to The Future of European Agricultural Policy and Rural Development Conference, Livorno, 24 March 1997.

¹¹ See Cohesion Report.

¹² The Fifth Environmental Action Programme.

- **Equal Opportunities** - Equality of opportunity for all in society, particularly between men and women, is not only a key component of social cohesion it also helps promote economic development by helping make full use of Europe's human resources.
- **Trans-national Issues** - There will continue to be issues that are best tackled at a European level e.g. cross border co-operation between regions.

F. Policy Objectives for 2000-05

Flowing from this analysis of the issues facing structural policy the following policy objectives would appear to be appropriate for the period 2000-05:

- **Underdeveloped Regions** - To continue to support the development of those regions whose prosperity is significantly below average (below 75% EU average GDP/head). Investment in the physical, productive and human capital of assisted regions should be at the heart of these programmes to allow them to participate in and contribute to EU development. Support should be available to existing Member States and new Member States when they join. It is anticipated that support to new members would be phased in to allow them to absorb structural policies in a way which would not unbalance their economies or administrations.
- **Restructuring Regions** - To continue to support economically fragile regions that have been helped to restructure in the wake of major industrial closures and to help regions that are undergoing major restructuring problems for the first time. This will involve helping stimulate new industries and helping existing industries innovate to remain internationally competitive, through programmes which combine investment in infrastructure, human resources and productive capital. The nature of the industrialisation process means that these programmes will focus predominantly on urban areas.

Given the progress that is being made in some of the regions already assisted it may be possible to pursue this objective in a way which allow, where appropriate, a gradual run down of support to some regions over the next policy period. The feasibility of this option would be further enhanced by the introduction of the '**Transition to Prosperity Initiative**' outlined below.

- **Human Resource Development**

- To continue to support the long term unemployed and the young unemployed across the EU to find employment.
- To continue to support employees to adapt to changes in industry and production systems.

- To help alleviate local concentrations of very high unemployment where this is accompanied by widespread social and labour market exclusion.
- **Rural Areas** - To continue to support the development of fragile rural areas. Consideration should be given to bringing the key elements of EU policy and funding affecting rural areas within a rural and agricultural policy framework. This would be designed to meet the challenges faced by agriculture and rural areas in an era of a more liberal world agricultural trade regime and a larger EU. It would also be aimed at areas trying to cope with the impact of EU fishing policy.

Provision within this framework could be made for the continuation of the Common Agriculture Policy closely linked to rural development. Such a change would in effect mean that current agricultural policy would be widened to cover all aspects of rural development, including those that did not impact directly on agriculture, but which by definition would have an indirect impact. To reflect this change consideration should be given to renaming this policy field as the **Common Agriculture and Rural Development Policy**. Programmes within this expanded policy area could include: agricultural/rural diversification, farm product marketing, environmental development, improving the quality of services (e.g. public water and sewerage) and direct income and price support measures where necessary.

Levels of support and aid ceilings under this policy could be related to the overall prosperity of the region concerned. Consideration should also be given to building on the experience of partnership arrangements under structural policy to develop EU supported Rural Development Programmes for specific regions under the new policy framework.

New arrangements may be most appropriately put in place following WTO agreements. This may imply a gradual switch over the period 2000-05.

- **Peripheral and Sparsely populated Areas** - To continue to support peripheral and sparsely populated areas (not assisted under other regional objectives) to participate fully in the EU. Consideration should be given to the relationship between this objective and the rural development programme.

Given their importance, all programmes supported by structural funds should aim to promote **sustainable development and equal opportunities** wherever appropriate.

In addition to the specific objectives outlined above consideration should also be given to establishing a special **'Transition to Prosperity Initiative'** to support programmes aimed at increasing European prosperity in regions in transition that have been assisted in

the past, or where support is being phased out, but where GDP per head remains below the EU average.

Support should also be given to very specific, highly focused programmes across the EU to promote cohesion and prosperity. These would include those that can best be taken forward on a trans-national basis, those that encourage innovation (that can't already be done under mainstream programmes) and those that respond to emergencies that might occur at short notice.

G. Comparison with Existing Objectives

There are many similarities between these proposed objectives and current policy objectives. This should not be surprising as action to promote cohesion and prosperity is long term in nature and many of the issues that drive current policy will continue to be important. It is also important that a certain level of continuity is maintained between programming periods given the long term nature of structural change.

There are, however, three **new elements** included in these proposals:

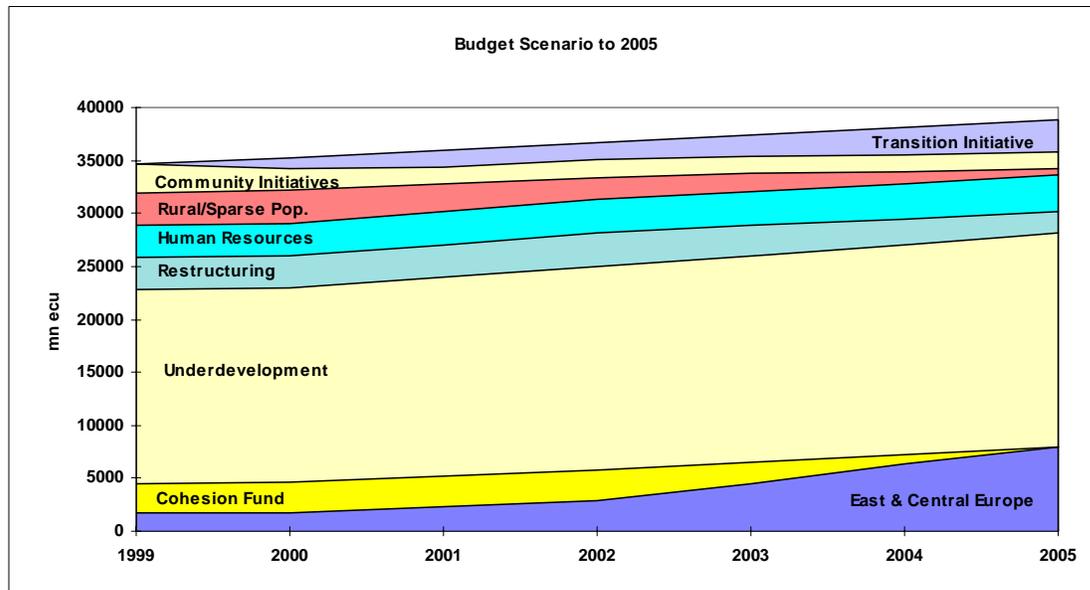
- the introduction of an initiative aimed at regions that will cease to be assisted by other regional programmes. This would apply in regions whose economic performance is still below the EU average, yet who have the potential to contribute to wider European competitiveness and prosperity through taking advantage of the economic opportunities they offer. The proposed method of addressing this is a '**Transition to Prosperity Initiative**'. This initiative would also offer the chance to introduce a number of innovations in the operation of structural fund programmes. This proposal is described in greater detail in Annex 2.
- the combination of Objectives 3 and 4 into a **Human Resource Development** objective and the inclusion within this objective of an element focused on support to relatively small areas with concentrations of very high unemployment.
- the proposal to consider bringing together the key EU policies affecting rural areas within a rural and agricultural policy framework over the period 2000-05 (**a Common Agricultural and Rural Development Policy**) in recognition of the need for EU policy to address wider aspects of rural development across the EU in the face of a changing agricultural, fishing and rural economic environment.

H. Budgeting for Structural Policies

Some idea of what the budget implications of addressing the above objectives can be gained from making certain assumptions about eligibility, the entry of new Member States and other factors. The chart below outlines one scenario which shows what the expenditure implications of structural policies based on the above objectives might be for

the next programme period and how they relate to expenditure in the final year of the current programme (1999).

This scenario assumes a balance of resources between objectives which is similar to that in the current programme, with the major proportion of funding going to underdeveloped regions. This seems appropriate given the scale and nature of the problems involved and the capital intensity of many of the tasks that have to be undertaken in these areas.



This scenario is based on the following assumptions:

- The post 1999 budget remains a constant proportion of GDP which grows by 2% a year.
- there is strict application of the 75% GDP rule for objective 1 eligibility with the gradual phasing out of support for areas becoming ineligible.
- Objective 5 is gradually phased out of structural policies with rural development being included in a wider common agricultural and rural policy.
- There is a gradual run down of Objective 2 support in some regions.
- The Cohesion Fund is phased out as Cohesion countries join EMU.
- Four new members join at start of 2003 (Czech Republic, Hungary, Poland, Slovenia - Pop 60mn). Objective 1 support is gradually phased in to reach existing levels and terms by 2010.
- A 'Transition to Prosperity' Fund is introduced in 2000. Areas losing assisted status with a GDP per head of between 75-100% of the EU average are eligible.
- Fewer Community Initiatives are undertaken post-1999.

This scenario demonstrates that, given certain assumptions, the above proposals could be financed within a budget that remained a constant proportion of GDP after 1999. It also shows that there is a reasonable degree of room for manoeuvre between 2000 and 2005.

I. Operating Structural Policies

In addition to looking at the objectives of EU structural policy the current reform also offers the chance to consider the way in which policy is implemented. There is a lot of experience across Europe of operating EU structural programmes. Scotland has been at the forefront of developing new approaches specifically designed for EU supported action and is widely recognised to have been successful in this regard. This provides a firm foundation on which to build in the future.

The following proposals regarding operations have emerged from consideration of this experience. They are aimed at achieving a more cost effective operation of structural policies by making programmes simpler and more flexible and by gearing them even more to local needs and opportunities.

- **Programmes are effective** - As a general rule action in the form of coherent programmes of mutually supportive actions is likely to be more effective than a series of stand alone projects. Programmes should focus on broad strategic objectives, should avoid being over complicated and should allow room for flexibility in implementation.
- **Build on Partnerships** - A key component of new programmes should be the continued use of partnerships which allow the local design and delivery of programmes within broad guidelines. Much time and effort has been invested to develop effective partnerships. These partnerships are now a valuable resource for promoting economic and social development at regional level. Every effort should be made to build on these arrangements to allow real local direction and accountability in the design and delivery of programmes.
- **Enhanced Subsidiarity** - Where partnerships have been established and have proven themselves, it is important that they are given the freedom to exercise real local discretion over the programmes for their regions. This should be done within broad strategic and operational guidelines laid down by the Commission in advance of the programme, and with regard to the need for proper accountability for EU funds. Not only will this help to make programmes truly bottom up, it will also help ensure greater value for money through a greater understanding of local needs and opportunities. It should also help reduce the amount of time consumed in detailed administration and allow the Commission more time to focus on major strategic issues.

Examples of areas where greater local decision making should be considered include: the balance between support for infrastructure, productive investment and human resources in programmes, the ability to vire money between different parts of the programme (up to a given maximum and a reasonable period after the start of the programme), levels of aid for particular projects (while maintaining an overall programme average) and in the split between capital and revenue projects.

- **Better Evaluation** - Greater local discretion will require even more effective monitoring and evaluation of programmes. Where possible this evaluation should focus on outputs in relation to inputs, rather than just inputs.
- **Clear, consistent and timely guidelines** - It is recognised that greater local discretion also requires guidelines from the Commission covering broad strategic and operational matters in advance of the programme planning. It is vital that these guidelines are clear and consistent across programmes and that continuity is maintained during the course of the programme.
- **Avoid over-concentration of eligible areas at EU level** - Concentrating the proportion of the EU population that are covered by eligible areas for structural fund support in order to intensify the impact of support on the highest priority areas is intuitively appealing. However, if this is done too tightly it could be counterproductive, for example, where it ignores opportunities in surrounding areas which could benefit the target area. Specific targeting of priority areas focusing on areas with severe problems is probably best done within broader programmes covering wider economic regions, as has happened in a number of existing Scottish partnerships.
- **Stronger links with other policy areas** - Even closer links with other EU policy areas, particularly RTD, Environment, Transport and Agriculture will allow structural policies to be more effective.
- **More flexible state aid rules** - Limited relaxation of state aids rules within the EU's competition policy rules could allow national, regional and local governments to do more to assist regional economies to develop and could help improve cohesion. This could also be particularly important in helping realise the potential of emerging industries that might in time be able to make a contribution to Europe's prosperity. Raising the de minimis state aid rules could be particularly effective, while allowing little risk of major breaches of competition policy. This would also allow EU competition authorities to devote more time to the most serious cases.
- **Amalgamate funds** - If the sources of funds for structural policies were to be amalgamated this could help reduce unnecessary administrative costs and payment delays, while contributing to greater transparency and accountability. It would also allow greater flexibility in programming and allow a greater emphasis on strategic objectives.

It is understood that an amalgamation of funds could be achieved within the administration of programmes. Lessons could be learned from the different systems currently applied to different funds to make sure that the best practice from each fund is applied in the administration of an amalgamated funding process. Particular attention could be paid to moving away from systems involving annuality as this promotes a short term perspective and creates many administration hurdles.

- **More flexible matched funding rules** - There may be scope for giving greater flexibility to matched funding requirements, for example, in allowing a higher proportion of EU funding to particular projects while maintaining the average for the whole programme (say up to 75% within a 50% average). Private sector matched funding could assist here by increasing the leverage ratios for some projects.
- **Greater private sector involvement** - There should be greater scope for involving private sector partners in structural fund programmes. A lot of experience in this regard has been gained in the operation of national and local programmes, where leverage of private sector funds to support economic and social development has been a high priority. Similar approaches could be adapted to EU programmes.
- **More sophisticated financial engineering** - Alongside the involvement of private sector funding there is also a lot of experience at national and local level in tailoring financial packages to meet the specific requirements of a project with the minimum support necessary to ensure it goes ahead. This will often involve the use of loan and performance grant mechanisms as opposed to simple grants. These mechanisms also allow all or part of a project's financial support to be repaid if it is commercially successful.
- **Recycle Funds** - The recycling of returns from loans and performance grants offers the opportunity to extend the lifetime of programmes without the need of additional financial support.
- **More Global Grants** - The greater use of global grants by recognised specialists with a good track record of using public funds could improve the cost effectiveness of some actions. The experience of operating the two LEADER II programmes in Scotland could be built on in this regard.
- **Contingency reserve** - Flexibility with regard to structural policies, while at the same time allowing long term plans to be implemented, may be assisted by the use of a contingency reserve to address unforeseen contingencies such as major industrial restructuring in a particular area. This reserve could decline over the lifetime of the programme from around 5% to zero.
- **Transition periods** - Cutting off support abruptly could lead to the sort of problems that the structural policies were introduced to alleviate. A transition period of at least

three years for areas that lose eligibility could help ease these problems and help ensure that any gain made during the course of a programme are not lost. This would be enhanced by the introduction of a specific transition initiative.

- **Community Initiatives/Innovative Programmes** - With more focused mainstream initiatives and greater flexibility in programme implementation there may be less need for as many different community initiatives as currently exist. However, a few limited initiatives to stimulate innovation, transfer of best practice and trans-national co-operation between regions may still be worthwhile and may be one way of rewarding those regions which perform well in the delivery of mainstream programmes.

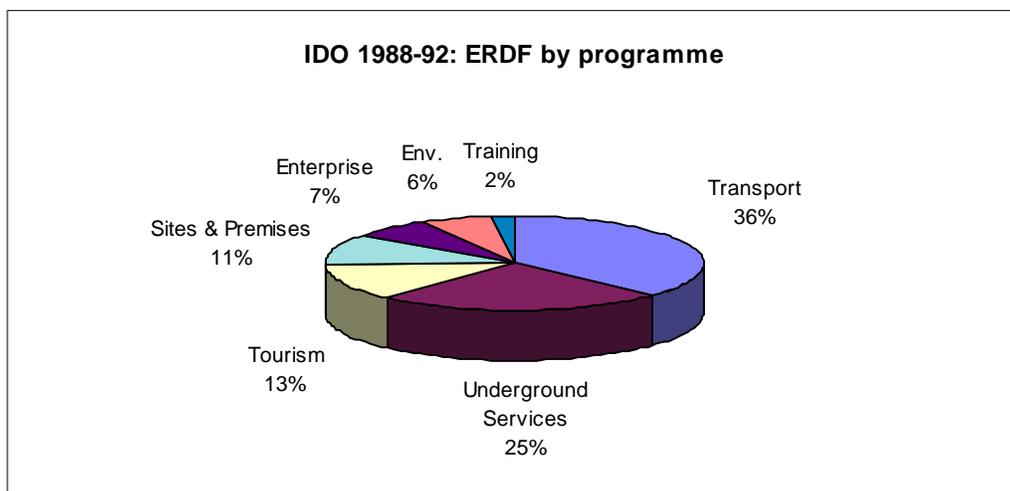
J. Conclusions

EU structural policies have made a significant contribution to Europe's development over recent years. The EU will continue to have a vital role to play in improving economic and social cohesion in Europe, while at the same time promoting competitiveness and prosperity. The current reform of the EU's structural policies offers the chance to build on past progress. The proposals outlined in this paper would allow structural policies to make an even greater contribution to Europe's cohesion and prosperity as it enters the 21st century.

Annex 1: The Impact of the Strathclyde Integrated Operation ERDF Action Programmes 1988-92

A recent report prepared on behalf of the Strathclyde European partnership has analysed the impact of the Strathclyde IDO that took place between 1988 and 1992.

The largest element of the programme was that funded by ERDF, which involved investment of over £230mn. There were seven action programmes supported by ERDF the chart below shows how these resources were divided between each element of the programme.



The report on the 1988-92 programme identified the following major outputs for each of the seven action programmes:

1. Enterprise, Innovation and Investment

- 9,900 SMEs assisted
- 385 SMEs created
- 35,000 jobs created or protected
- 1:1.2 private sector leverage

2. Industrial Sites and Premises

- 900 hectares new/improved sites
- 275,000 sq m new/improved floorspace
- 459 new units
- 3250 jobs created or protected
- 1:10 private sector leverage

3. Tourism Development

- 4 new/improved all weather facilities
- 6 new/improved museums/galleries
- 490 jobs
- 3 million visitors, £2.2mn extra revenue

4. Transport and Communications

- 47 kms new roads
- 32 new roundabouts/junctions
- 120 kms new/improved railway
- 34 new/improved stations

5. Underground Services and Waste Disposal

- 4 new/improved water treatment plants
- 50 kms new/improved trunk services
- 3 waste disposal plants
- 1 major new sea out fall
- 2,800 jobs during construction

6. Environmental Improvements

- 1,800 hectares improved land
- 122 kms improved corridors
- 139 buildings enhanced
- 140 jobs created
- 2,800 jobs protected

7. Employment and Vocational Training

- 173 courses
- 1,900 training places
- 12,000 sq m new improved training space

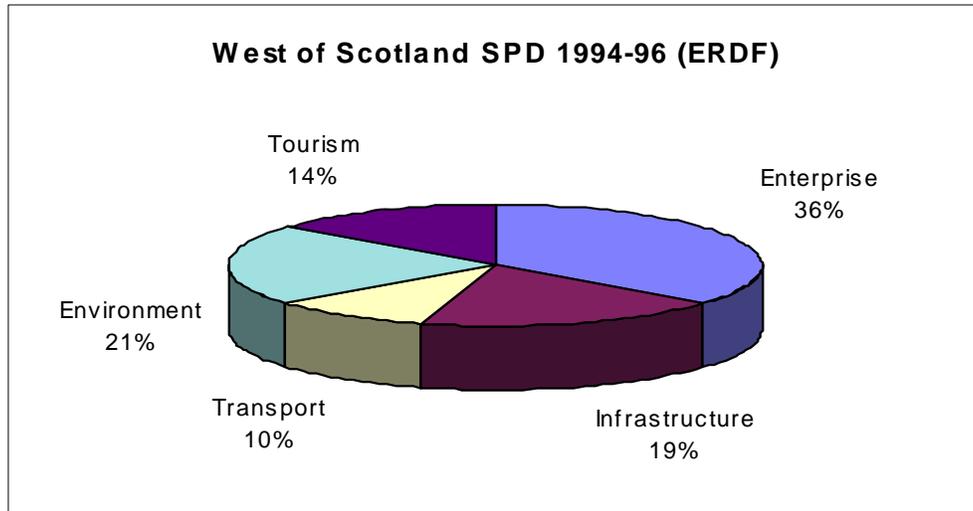
It can be seen from the range of this list that the impact of the IDO spread into many corners of the Strathclyde and Scottish economies.

Macro Analysis

The report also looked at some of the macro indicators for Strathclyde. Employment rose faster in Strathclyde than in Scotland during 1987-89 but was less in 1989-93. GDP per head relative to the UK between 1987-93 remained roughly the same in Strathclyde yet rose in Scotland as a whole. Unemployment fell between 1987-93 from 17.3% to 12.2% in Strathclyde and from 14.5% to 10.3% in Scotland over the period. The report concludes that there is little evidence yet from the macro-data of permanent change in the region, however, it also points out that many of the benefits are still being realised and won't feed through for three to five years or so.

Later Programmes

By way of comparison the ERDF financial allocations for the 1994-96 SPD show the increasing emphasis being given to the support of enterprise and environment as against transport and infrastructure (see below). This will have a marked effect on the impact of later programmes.



Annex 2: A Transition to Prosperity Initiative

Objectives

- **To help regions make the transition from assisted to non-assisted status and consolidate the progress made as a result of EU support.**
- **To help realise the potential that these transition regions have to make to Europe's overall competitiveness and prosperity and hence its ability to generate high quality employment and the resources to spend on economic and social cohesion.**

Eligibility

Regions with a GDP per head of between 75 and 100% of the EU average that have been supported by structural policies in the past, or where support is in the process of being phased out, would be eligible.

Programmes

Programmes would be focused on activities which increase the competitiveness of a region such as increasing business start-ups, encouraging potentially successful industry clusters, export promotion, human resource development, exploiting the information society.

Management

Programmes could take advantage of existing partnership infrastructure in the preparation and implementation of plans.

Timescale

It is proposed that applications under this initiative would be for programmes covering a significant period of time, say three to six years, in order to allow them to have a significant impact and allow partners to commit to them.

Operation

Private sector investment and the recycling of funds would be central to the operation of these programmes.

It is anticipated that some elements of successful programmes would be trans-national (e.g. measures to internationalise business) although they would primarily focused on supporting projects in the target region.

SCOTLAND EUROPA ★

Scotland House Rond-Point Schuman 6 B-1040 Brussels T +32 (0)2 282 8315 F +32 (0)2 282 8300

Also at: Scottish Enterprise 5 Atlantic Quay 150 Broomielaw Glasgow G2 8LU T +44 (0) 141 248 2700 F +44 (0) 141 228 2114

W www.scotlandeuropa.com E information.desk@scotent.co.uk