European Union
Regional Policy
and Cohesion

Cohesion Report, Summary
Fact Sheet 17.12.1996 EN

Cohesion in the European Union

The first Report on Economic and Social Cohesion in the European Union was adopted by the European Commission on November 6, 1996. The Report was presented in accordance with the requirements of the Maastricht Treaty, which calls for an update every three years on the progress made towards improving the cohesiveness of the Union by reducing the gaps in standards of living and economic opportunities which exist between Member States, regions and social groups.

A central message of the report is that progress has been made. In only ten years, the four poorest countries of the EU have managed to raise their income per capita from 66% to 74% of the Community average. The EU's structural policies have largely contributed to this. But unemployment remains a persistent problem with particularly serious consequences for certain regions and social groups.

This document is divided into four main parts.
The first part reviews recent trends in economic and social cohesion between the Member States, between regions, as well as between social groups.

The following two sections examine the impact of policy at national and Union level which affect cohesion directly or indirectly.
National policies are examined first of all, followed by the European Union's policies.

The last part of the document presents the conclusions of the full Report indicating areas for further improvement in order to raise the effectiveness of cohesion policies in the future.

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The Cohesion gap at its worst:

The 10 poorest regions have a GDP per head less than half the EU average.

The unemployment rate in the most affected regions is 26.4%, or 2.5 times the EU average.

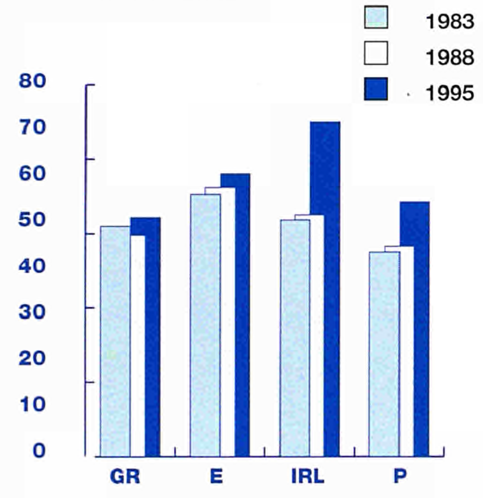
Who are the 'Cohesion 4'?

They are the four poorest states in the European Union: Greece, Ireland, Spain and Portugal.

A narrowing of the gaps?

Over the past decade, economic growth in the Union has averaged just over 2% a year, while employment has grown at 0.5% a year. Some 7 million jobs have been created in net terms since 1983.

Evolution of GDP per head in the Cohesion Four 1983, 1988, 1995, in millions of Ecus

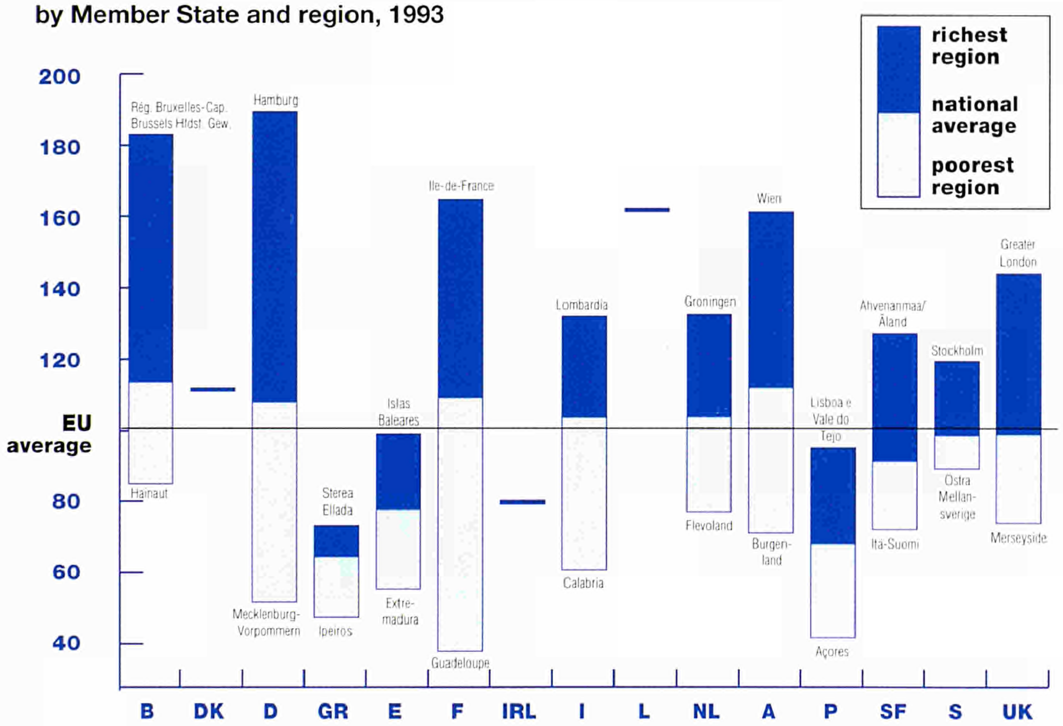


Source: DG II, calculations DG XVI-A4

Disparities in income per head between Member States have narrowed significantly over the same period. This is largely due to a catching up on the part of the cohesion countries - Spain, Portugal, Greece and Ireland - with income per head moving from 66% to 74% of the Community average. Ireland has had the most remarkable performance with an average growth rate of 4.5% a year between 1983-95, followed by Spain with 3.0% and Portugal with 2.6%. On the other hand, Sweden and Finland have lost ground compared to the rest.

The experience across the Union with regard to employment is more mixed. In the country with the highest economic growth, Ireland, employment grew by a mere 0.2% over the period 1983-93, although this has accelerated more recently. Similar growth rates were recorded in many other Member States while the deep recession in Finland and Sweden led to an absolute decline in employment. Countries such as the Netherlands, Germany, Greece and Spain, succeeded in creating jobs at a higher rate than the average.

Regional Differences in Gross Domestic Product (GDP) per head, by Member State and region, 1993



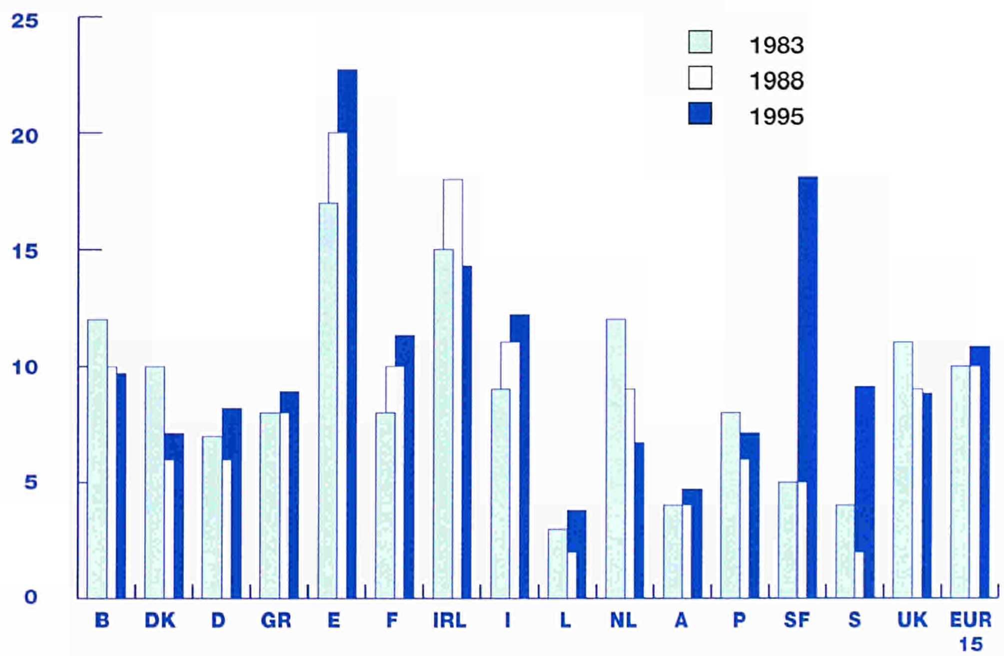
In Portugal, Belgium, Germany (West), the Netherlands and the United Kingdom employment creation, while variable, has nevertheless been sufficient to reduce the unemployment rate. In most other countries there have been increases in unemployment rates. These are most dramatic in Finland and Sweden as well as in two of the cohesion countries, Spain and Greece, where there was a significant increase in unemployment. In Spain, more than one in five of the work force is now unemployed.

Income disparities between the regions of the Union have remained largely unchanged over time: the 25 best-off regions improved their fortunes marginally, moving from 140% to 142% of the Union average. There was a parallel improvement for the 25 worst-off regions from 53 to 55%. Nevertheless, the poorest - 'Objective 1' - regions as a group improved their average level of income per head by nearly 3 percentage points from 64.6% to 67.2%.

Over the past decade, regional income disparities increased within each individual Member State in which they were measured, with the exception of the Netherlands. Similarly, regional differences in unemployment rates were also on the rise within many Member States, with the United Kingdom as a notable exception. In France, Germany (West) and other countries this has gone hand-in-hand with a more unequal distribution of income between persons and a fall in labour's share of national income.

Across the Union as a whole, the incidence of unemployment has become much more uneven. While over the ten years, 1983-1993, the 25 regions with the lowest rates of unemployment were able to reduce their average rate even further from 4.8% to 4.6%, there has been a dramatic worsening from 17.2% to 22.4% for the 25 regions with the highest rates.

Unemployment rates by Member State - 1983, 1988, 1995 (in %)



Source: EUROSTAT - SF: data for 1995 - A: data for 1984.

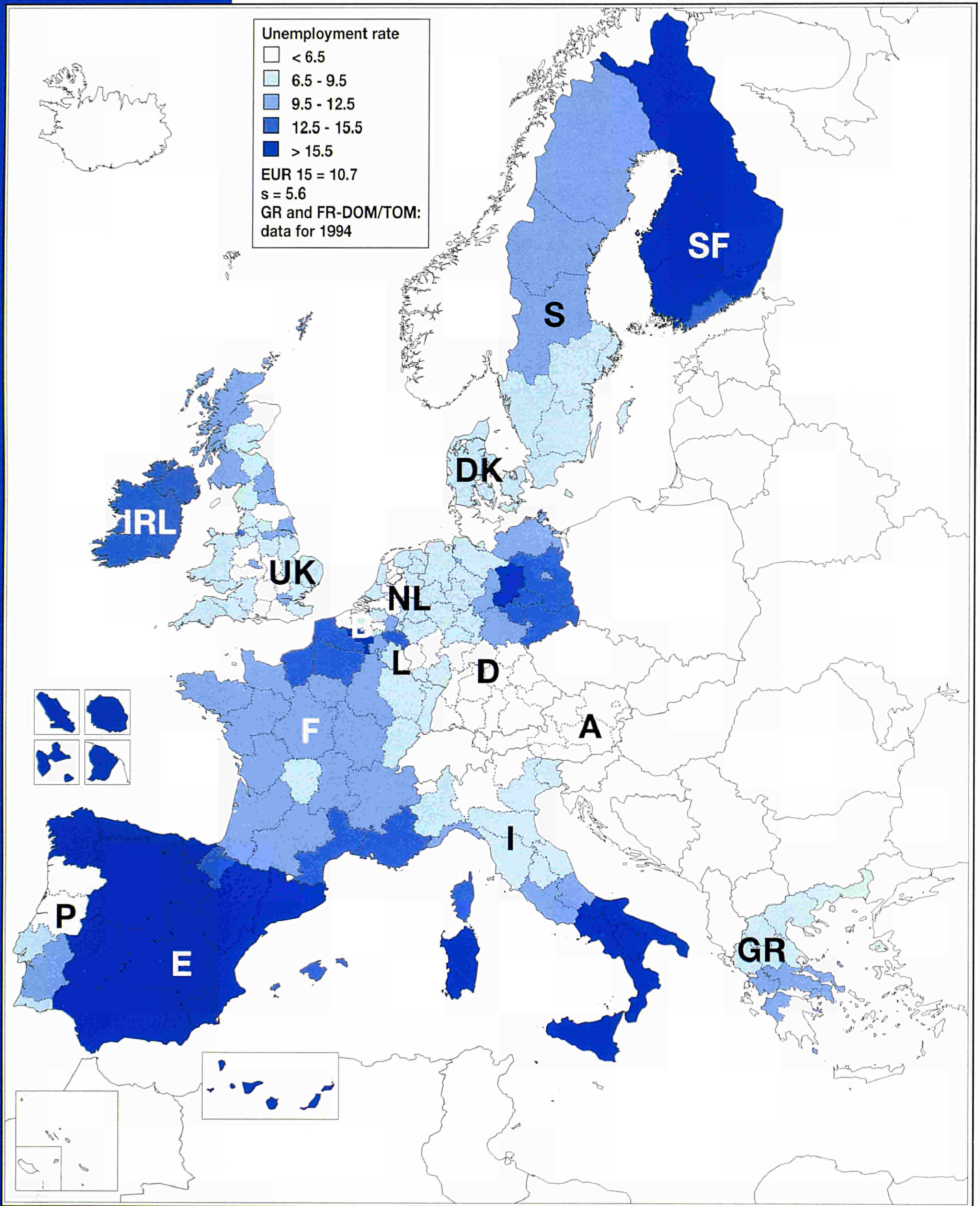
Unemployment

Unemployment in Spain is the most severe in the Community, affecting between 16.6% and 20% of the labour force since the beginning of the 1980s, and rising up to 23% in the mid 1990s.

But regional variations are considerable with nearly 35% unemployment in Andalucia, and 15% in Navarra in 1995.

Urban unemployment is a growing phenomenon across the Union, evident at the level of urban districts rather than at the level of the city as a whole. Few statistics are available, but national sources point to unemployment rates of one-third, and occasionally one-half, of the labour force in some urban neighbourhoods.

Unemployment by region, 1995



Unemployment is a problem which cuts across European society as a whole. Different social groups are affected to different extent: for those under 25, it is about twice as high as the overall rate, (21% during the first half of 1996). Unemployment among women is also high, averaging 12.5% during the same period, compared to 9.5% for men. Those with only a basic level of schooling suffer higher rates of unemployment than those with additional qualifications (13% versus 9% in 1994).

Long-term unemployment is a serious problem: in 1995, 49% of unemployed people had been seeking work for a year or longer, while 25% had looked for at least two years. These figures support the view that unemployment in Europe has become a deep-seated structural problem, contributing to the exclusion of certain social groups from the labour market.

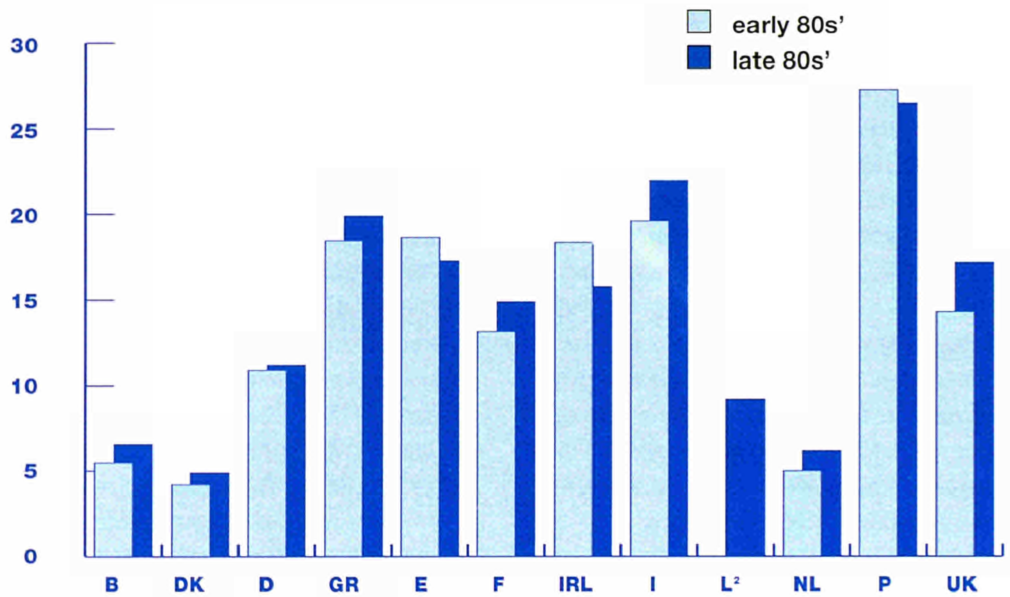
Unemployment is a factor in the incidence of poverty. Statistical evidence suggests that poverty appears to be increasing across the Union, especially within some northern Member States.

Citizenship

The only true foundation for integration in Europe is a sense of common purpose and solidarity on the part of all of its people.

Any notion of European cohesion is inevitably intertwined with that of citizenship in the broad sense of the term.

Percentage of the population living below the poverty line[1]



1 No data available for the new Member States
2 Luxembourg: Data only available for 1988

What is the poverty line?

The degree to which society suffers from poverty is generally assessed in terms of the poverty line. which is a relative rather than an absolute concept, usually defined as the proportion of households with income 50 % or less of the average for the country as a whole.

Inflation is down, but budget deficits remain high

The average public debt for the Fifteen has been creeping upwards since 1992 from around 60% of GDP to over 70%.

Excessive budget deficits result in upward pressure on interest rates providing less favourable conditions for investment and growth. In addition they lead to a build-up of debt over time, increasing the burden on interest payments in public expenditure. This reduces the financial resources at the disposal of the Member States to carry out productive programmes such as investment in infrastructure or training.

Role and achievements of Member States' policies

Member States' policies are the Union's primary instruments for achieving cohesion. Member States have the resources at their disposal. Public spending accounts for between 40% and 60% of national GDP compared to the Community budget of about 1.2% of Community GDP.

The measures undertaken by the Member States to strengthen cohesion have generally gone in the right direction. Macro-economic policies have brought about significant progress in nominal convergence. Inflation rates have decreased to levels which are among the lowest of the past 30 years. In Portugal, Spain, Italy and Greece inflation has come down but remains above the Community average. Interest rates have also declined and the differences between Member States have narrowed, thus improving the general climate for investment and growth. Public deficits and debt, however remain a major source of concern. Over the last decade the financial burden for repaying the debt has increased on average by 1.2 percentage points of GDP, and in Greece, Finland and Italy the rises have been more dramatic.

Through Member States' public expenditures and taxation, a flow of interregional transfers of resources takes place. According to a specially commissioned study of seven countries (containing over 80% of the EU's inhabitants) net transfers amount to 4% of the GDP of the donor regions and 8% of the GDP of the recipient regions. These transfers have a significant cohesion effect within Member States, reducing regional primary income disparities by 20-40%. A major explanation for this redistributive effect is the fact that Member States spend about 50 - 70% of total public expenditure on services of general interest: education, health, housing and cultural activities as well as social security. At the same time, these policies have not been able to prevent poverty rates from rising in many Member States.

National expenditure on employment policies, regional policies, and RTD (Research and Technological Development) accounts for between 6 and 14%. RTD spending is highest in relation to GDP in the more prosperous countries and is concentrated in the richest regions in all countries for which regional data exist.

So far as employment policies are concerned, Member States have made a co-ordinated effort to bring about improvements, concentrating on the five priority areas agreed upon at the Essen Summit in 1994: improving labour skills, promoting more employment intensive growth, reducing non-wage labour costs, improving the effectiveness of labour market policies and assisting those hardest hit by unemployment.

The regional policies operated by the Member States themselves cover some 46.7% of the Union's total population. Around half cover the least developed regions (in the sense of Art. 92.3.a of the Treaty). For these, the maximum aid levels vary between 30-75% of eligible investment expenditures. For national regional aids authorised under Art. 92.3.c of the Treaty the maximum aid limits vary between 10-30%, only Finland and Sweden are permitted to go up to 35% for a small percentage of their population.

The variation of aid intensities has helped the least favoured regions to compete for new investment although richer Member States can afford to use more public money to support new investment than poorer ones. Consequently, between 1989-93, national regional state aid per capita was on average much higher in eastern Germany and the Mezzogiorno in Italy than in the Cohesion countries, with the result that two-thirds of the total amount of regional national state aids in the Union were spent in Germany and Italy.

European Union non-cohesion policies: how do they affect cohesion?

The European Union is responsible for policies affecting a wide range of sectors, as well as for policies which are explicitly targeted on improving economic and social cohesion which are examined below.

Agriculture

Market interventions under the Common Agricultural Policy help to ensure the orderly development of a sector which is subject to much uncertainty for climatic and other reasons. The CAP also involves large implicit transfers of income between Member States, regions, economic sectors and social groups. These transfers arise through trade between Member States in agricultural products. Member States which benefit are those which export the more protected products while importing those which are less protected.
To calculate the net transfer overall, it is necessary to take into account the effects of direct payments from the CAP affecting certain sectors less national contributions to the EU's agricultural fund. Estimates by experts based on 1994 data indicate that Greece, Spain, Ireland, France and Denmark were net beneficiaries, while the remaining countries were net contributors. This is significant in the case of Portugal which despite a large agricultural sector derives less benefit from rhe CAP due to its specific production structure. Its position has improved, though, in the period since the 1992 agricultural reforms.

Within Member States, the CAP has a generally positive effect on cohesion insofar as money is transferred from urban to rural areas. The 1992 CAP reform, which took account of cohesion objectives, reinforced these positive effects. The long-term effects on competitiveness are mixed, however, because although employment is positively affected, there is a reduced incentive for change, thereby hindering structural adjustment.

Competitiveness

Many EU policies contribute to economic competitiveness: the single market, competition, research and technological development (RTD), and small and medium-sized enterprises (SMEs).

The Single Market Programme (SMP) has had a far-reaching effect in its attempt to establish freedom of mobility for labour, goods, services and capital. Short-term effects include the opening up of markets and the spur to productivity. Longer term effects on the growth rate result from increased capital stock and higher quality labour. The SMP contributed to growth in Spain, Portugal and Ireland, where both short and long-term effects are evident. Greece and Southern Italy, however, have experienced only marginal effects.

Complementary to the Single Market is the EU's competition policy which aims to prevent or eliminate distortions in markets, and which can therefore have positive effects on growth and cohesion. These include the control of State Aids where there are derogations to permit the granting of investment support in certain disadvantaged regions. Again, the effects on the development prospects of the weaker regions are positive, but the lack of resources in the poorer Member States prevents them from taking full advantage.

The EU's RTD policies aim to raise the technological strength of the economy and to increase its ability to compete on world markets. They have contributed to cohesion by developing research capacities in the weaker states. But such policies are likely to take root better in stronger regions and tend to reproduce existing disparities in science and technology. Additionally, research institutes and universities benefit more than private firms and there is a tendency for elites to combine. One of the risks is that research priorities become less relevant to the needs of poorer regions.

A brief history of CAP

The Common Agriculture Policy was originally based on market price support of farm output, in order to guarantee overall production and self-sufficiency.

But expanding domestic supplies eventually led to surpluses and to the introduction of export incentives.

In 1984, the EU introduced production quotas, followed a few years later by land set-aside schemes, to reduce surpluses and associated costs. Although these policies saved money, they did not improve the efficiency of the agricultural sector.

A major reform in 1992 aimed to balance supply and demand and to weaken the link between financial support and production levels.

Payments are now generally based on historical yields, but compensatory payments are still linked to the size of the cultivated area. Accompanying measures encourage less intensive farming, the afforestation of agricultural land, and early retirement schemes for farmers.

Sustainable development

Sustainability can be a source of opportunity for the regions.

The quality of the environment is a factor attracting new activities, while clean technologies are a business opportunity and can help to create jobs and strengthen the technological base of the regional economy.

SMEs play an important role in the economy because they tend to be labour rather than capital intensive, and are therefore effective at job creation. The EU has developed programmes for SMEs which support information dissemination, transnational cooperation, and limited financial assistance where cohesion countries have been among the major beneficiaries

Network policies

The network policies seek to remove the national bias in the provision of transportation, telecommunications, and energy infrastructures. Policies have sought to liberalise the provision of equipment and services in these sectors. They have increasingly included the improvement of cohesion among their primary objectives.

With regard to transport, improved accessibility from the periphery to the centre is expected to come about through a variety of programmes, including the TransEuropean Transport Networks (TETNs). Poor secondary connecting networks to the TETNs have, however, limited the benefits outside the major urban centres. Cohesion countries depend heavily on roads and short-sea shipping, and therefore require more inter-modal transport solutions.

Telecommunications policy has focused on liberalisation which will have positive long-term results. Universal Service Obligations (USOs), which maintain services for regional or social reasons, help to prevent some of the negative effects of liberalisation. USOs could also ensure wider access to the information society, provided they are defined to include advanced services.

Quality of Life

The policies reviewed so far may address social considerations, however they are preoccupied with economic or efficiency matters. But some Union policies focus on human and social issues, reflecting the Union's objective to improve the overall quality of life in Europe.

Social policies encompass a range of measures all of which directly address integration and cohesion. They are generally designed to support competition and to ensure that economic restructuring does not lead to unacceptable social problems. They have also led to the adoption of minimum standards in a wide range of areas. In addition, incentive measures encourage cooperation in areas such as education and vocational training, equal opportunities, poverty and social exclusion, health and the rights of people with disabilities.

EU environment policies are increasingly concerned with ensuring that economic development within the EU is sustainable. Sustainable development is of particular importance for cohesion countries which are developing at a quick pace. Although environmental problems (pollution, congestion, etc) are generally more serious in richer countries, the Cohesion 4 are relatively deficient in environmental infrastructure (ie. waste recovery facilities), in trained manpower and in environmental information systems. Financing environmental measures at the same time as pursuing faster growth can pose problems for the poorer states at least in the short-term.

European Union cohesion polices: their added value

The European Union shares responsibility for cohesion with the Member States. Since the reform of its cohesion policies in 1988, these have become more extensive, in terms of resources and by introducing a Community wide vision of Europe's major regional and social problems. In addressing these problems and helping to develop new opportunities, EU cohesion policies support three broad fields of intervention: infrastructures, human resources and productive investment. Infrastructure investments of the Structural Funds focus on the provision of local and regional networks and environmental protection, while the Cohesion Fund is used exclusively for transport and environmental infrastructures. Funding for human resources is used to raise the quality of labour and to promote equality, mainly through vocational training. Productive investment aims to improve the business environment, with a strong emphasis on support for SMEs, but also on research, local development, and improving agricultural structures.

Several different macroeconomic models have been used to evaluate the effectiveness of the EU's structural assistance. The results are varied but positive on the role of structural assistance as a significant factor underlying the convergence of the cohesion economies towards the output and real income levels of the rest of the Community.

Structural Funds assistance in the 1989-1993 period are estimated to have increased growth by 0.5% a year in the four cohesion countries, from 1.7% to 2.2%. Given the increase in assistance in the present programming period (1994-1999), the increase in growth may be even greater on average than 0.5% per year. The number of jobs created or maintained during the first programming period is estimated at over 500,000, ie 2.5% of the total.

Objective 1:
modernising the regional economy

Resources for these regions are intended to tackle basic structural problems. In the Cohesion 4, the most visible impact is on basic infrastructure where notable progress has been made. All types of transportation networks have been upgraded or extended. For instance, over 17,000 km of major roads will have been constructed or improved in the Cohesion 4 by the end of 1999. Telecommunications systems have also been modernised, and by 1999, digitalisation rates will have reached 100% in Ireland, 80% in Greece, 75% in Portugal and 65% in Spain. Energy diversification has also progressed ano with it energy efficiency. Key support has gone to environmental infrastructures, particularly water supply and waste water treatment systems.

Human resource projects focused primarily on the strengthening of education and training systems, resulting both in increased access, and in higher participation among the young. The link between school and work was targeted, leading to improved apprenticeship systems in Portugal and Ireland, and to the set-up of technical institutes in Greece. Continued training for adults was also emphasised to help the workforce adapt and upgrade their qualifications.

Community policies in the Objective 1 regions of Italy emphasised infrastructure (primarily the natural gas distribution network and telecommunications), and projects for young people and the long-term unemployed. In eastern Germany, job creation, environmental improvement measures and the reintegration of women into the labour market were prioritised.

The Structural Funds

- the European Regional Development Fund (ERDF) concentrates on productive investment, infrastructure and the development of small business in the most disadvantaged regions;
- the European Social Fund (ESF) concentrates on vocational training and recruitment aid;
- the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) supports agricultural structures and rural development;
- the Financial instrument for Fisheries Guidance (FIFG) assists the adjustment of the fisheries sector.

Assistance is concentrated on six priority objectives:

Objective 1: structural adjustment of regions whose development is lagging behind;

Objective 2: economic conversion of areas seriously affected by industrial decline;

Objective 3: the reduction of long-term unemployment, and the socio-economic integration of excluded groups;

Objective 4: preventive measures to combat unemployment associated with industrial change;

Objective 5a: structural adaptation of agriculture and fisheries;

Objective 5b: economic diversification of vulnerable rural areas;

Objective 6: development of sparsely populated regions.

Objectives 1, 2, 5b and 6 allow Community assistance only in certain eligible areas (51% of the total population of the European Union).

Measures financed under Objectives 3, 4 and 5a may be implemented throughout the Community.

The Cohesion Fund

Established under the Maastricht Treaty, the Cohesion Fund is designed to smooth the way for the Member States whose per capita income is under 90% of the Community average (Greece, Ireland, Spain and Portugal).

It supports projects in the field of environmental protection and trans-European transport networks throughout these countries. 16 billion ECU (1992 prices) has been earmarked for the fund for 1993 to 1999.

The European Investment Bank

The EIB contributes to regional development, with more than two-thirds of its lending activity - about 44 billion ECU from 1991 to 1995 - devoted to the eligible areas.

More than half of the Bank's loans have gone to Objective 1 regions, while in recent years, the EIB has stepped up its lending activity in Objective 2 and 5b areas, which now account for 43% of its financing for regional development.

Most of the financial resources have been allocated to infrastructure projects, many of which help to complete European transport and energy networks or protect and improve the environment.

Objective 2: promoting the business culture

Restructuring and development is the primary goal for these regions which suffer from dependence on traditional but declining industries. Community assistance encouraged the development of an indigenous business culture by supporting the creation of SMEs and helping them increase efficiency and target new markets. Training schemes also played an important role in areas where skills have become outmoded or obsolete. Beyond restructuring, the regeneration of the economic and urban environment was facilitated, often through the revitalisation of derelict industrial sites. Evaluations indicate that Structural funding in Objective 2 regions helped create or preserve 530,000 new jobs in net terms between 1989 and 1993.

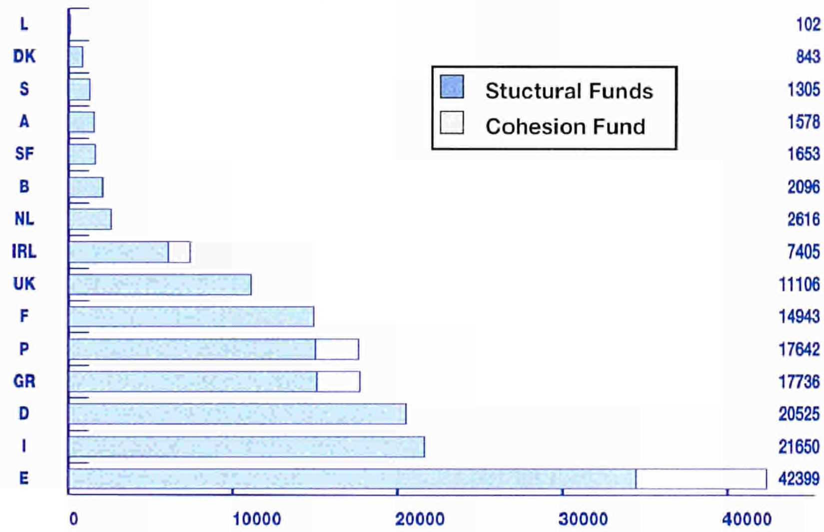
Objective 3: improving labour market schemes

Funding under this objective covers the whole Union, and reinforces national expenditure on labour market programmes especially to help the long-term unemployed, women and the young unemployed. The 1993 Structural Fund reforms oriented the funding more directly towards excluded groups, and towards the 'pathway to integration' approach which tailors programmes to the specific needs of the target group. Community intervention has since become a source of innovation and experimentation in national labour market and social exclusion policies. Other results include distinct improvements in training and employment services, and in the development of certification mechanisms.

Objective 4: preparing for economic change

Introduced in 1993, this innovative objective focuses on preventative measures facilitating the adaptation to industrial change; it also covers the whole Union territory. While it is too early to judge results, certain key aspects are emerging. On the negative side, it has been difficult to reach SMEs as opposed to large firms, or to reach those at risk of unemployment within those firms.

Breakdown of Structural Funds by Member State 1993-1999 (in millions of Ecus, 1994 prices)



On the other hand, positive consequences can be detected. Member States are adopting more forward looking approaches, actively attempting to anticipate change in different sectors so that appropriate steps can be taken.

Objective 5a:
improving structures in traditional sectors

This objective aims to support a restructuring of the agricultural sector. Direct compensation is provided to those in mountainous or other naturally disadvantaged regions (56% of usable agricultural land). Subsidies aim to adapt production structures to the market, improve product quality, working conditions, hygiene and the environment. Youth must be attracted to farming, and every year 23,000 young farmers receive set-up support. The funding allocated to the fisheries sector has reduced the over-capacity of the fishing fleets, improved health and safety on-board, and promoted the development of fish farming, the latter proving particular successful in Greece, Italy, Ireland and Scotland.

Objective 5b:
restoring the rural economy

Vulnerable rural regions require structural adjustment in order to develop. Several goals have been prioritised, notably the diversification of agriculture and forestry, and the development of SMEs and of rural tourism in order to encourage the development of a more balanced rural economy. Estimates suggest that 500,000 jobs will have been created or preserved in these regions between 1989 and 1999.

Objective 6:
innovation and accessibility

This objective was created in 1995 to address special problems of extreme peripherality, climate and low population densities in some areas of Finland and Sweden. Innovation has been at the heart of the strategy, with a priority for expenditure on research and new information and communications technologies. This accounts for one-third of Community assistance in Finland. It is, however, too early to assess the programme results.

Community Initiatives

Community initiatives, which account for 9% of structural funding, reflect a wide variety of aims. They are distinguished from mainstream programmes by their specific focus on cooperation, generating a spirit of experimentation, encouraging the involvement of people at the grassroots level, and disseminating information. As such they have an important influence on European integration, INTERREG, URBAN, LEADER and EMPLOYMENT have been recognised for their unique contributions to European development and construction.

The Community Initiatives

These programmes tackle specific problems with a European dimension. The areas of intervention for the current period are:

- INTERREG II: crossborder cooperation (Part A), energy networks (Part B), cooperation in the area of regional planning, in particular management of water supply (Part C);
- LEADER II: rural development;
- REGIS II: integration of the most remote regions;
- EMPLOYMENT: -NOW for women; -HORIZON for people with disabilities; -YOUTHSTART for young people; -INTEGRA for people threatened with social exclusion;
- ADAPT: Adaptation of the workforce to industrial change;
- RECHAR II: conversion of coal-mining areas;
- RESIDER II: conversion of steel areas;
- KONVER: economic diversification in regions heavily dependent on the defence sector;
- RETEX: economic diversification in areas heavily dependent on the textile and clothing industry;
- SME: strengthening of the competitiveness of small and medium-sized enterprises;
- URBAN: regeneration of crisis-struck areas in medium-sized and large towns;
- PESCA: economic diversification in areas heavily dependent on the fisheries sector.

Concentration

Through concentrating resources, the Union has been able to mobilise funding to have a significant impact on the worst-affected areas and social groups; More generally, concentration of support on physical and human capital has ensured that, in all Member States, each ECU from the Community is specifically targeted on investment for the future.

Population assisted, and allocation per head by Objective, 1989-93

	Objective 1		Objective 2		Objective 5b	
	% of population	allocation ECU/head	% of population	allocation ECU/head	% of population	allocation ECU/head
B	-	-	22.1	19.0	2.7	26.0
DK	-	-	4.9	20.0	2.1	39.0
D	-	62.0	12.4	16.0	7.4	23.0
GR	100.0	150.0	-	-	-	-
E	57.7	91.0	22.2	35.0	2.5	53.0
F	2.7	120.0	18.3	25.0	9.7	34.0
IRL	100.0	253.0	-	-	-	-
I	36.4	82.0	6.6	21.0	5.0	25.0
L	-	-	38.0	16.0	0.8	187.0
NL	-	-	9.9	22.0	3.0	15.0
P	100.0	171.0	-	-	-	-
UK	2.8	87.0	35.5	20.0	2.6	16.0
EUR12	21.7	123.3	16.8	20.6	5.0	29.6

Population assisted, and allocation per head by Objective, 1994-99

	Objective 1		Objective 2		Objective 5b		Objective 6	
	% of population	allocation ECU/head	% of population	allocation ECU/head	% of population	allocation ECU/head	% of population	allocation ECU/head
B	12.8	95.0	14.2	40.0	4.5	29.0	-	-
DK	-	-	8.5	45.0	6.8	25.0	-	-
D	20.6	145.0	8.8	37.0	9.7	26.0	-	-
GR	100.0	225.0	-	-	-	-	-	-
E	59.7	188.0	20.4	51.0	4.4	64.0	-	-
F	4.4	143.0	25.1	43.0	16.7	38.0	-	-
IRL	100.0	262.0	-	-	-	-	-	-
I	36.7	117.0	11.0	39.0	8.3	31.0	-	-
L	-	-	34.6	19.0	7.9	33.0	-	-
NL	1.5	115.0	17.4	42.0	5.4	31.0	-	-
P	100.0	235.0	-	-	-	-	-	-
UK	5.9	115.2	30.9	43.0	4.9	48.0	-	-
A	3.7	120.0	7.5	31.0	28.7	35.0	-	-
SF	-	-	15.7	45.0	21.6	35.0	16.7	107.0
S	-	-	11.5	32.3	9.2	33.8	5.3	110.0
EUR15	26.6	169.5	16.4	41.9	8.8	35.0	0.4	108.5

The delivery system: a force for change

In addition to the economic benefits of the Structural Funds, a fundamental part of their added value lies in their distinctive delivery system. It has a number of key elements. First, it is targeted ('concentrated') on particular activities, localities or social groups. This improves the effectiveness of the funds and ensures that they are genuinely European in scope. It also minimises the inflationary impact of expenditures since the injection of funds, leading to greater purchasing power, is matched by an increase in investment. Thus, overall economic capacity is increased.

Second, it is based on *medium-term strategic programmes*, which encourage Member States to take a longer-term perspective. An additional element is the priority placed on effective national *financial management and control* systems, as well as on *evaluation* (introduced in 1988) to ensure that the resources are used where intended and that, *inter-alia*, there is an appropriate feed-back of information to allow programmes to be adjusted. The relative absence of a national 'evaluation culture' prior to this time has meant that a substantial effort has had to be made to ensure that appropriate systems are put in place.

Thirdly, *subsidiarity and partnership* are an essential element of the delivery system. Subsidiarity is a recognition of the virtues of decentralisation and the sharing of responsibilities. It is therefore relevant to cohesion policies since it means involving those nearest to the problems for which solutions are being sought. These partnerships play a fundamental role by acting as a mechanism for dialogue. Moreover, they have proved robust and adaptable, capable of operating at national or local level.

The final element is *leverage* which means that programmes attract additional resources from public and private sources in the Member States, which might otherwise not be available. Furthermore, there is a formal requirement that Community resources may not substitute for national sources. As a result, EU policies make a substantial contribution to promoting strategic investments for economic development and restructuring.

Strategic Programming

The programming approach has permitted medium-term, or 'multi-annual', development planning. It has encouraged the poorer Member States, in particular, to think not just of present policy pressures but to plan for the future in a longer-term perspective guaranteed by stable and predictable financial allocations from the EU.

Programmes are also the vehicle for ensuring an optimal integration of different European, national and regional instruments in the realm of structural policies. There has been marked progress in this area since 1989 with almost all European regional policy programmes furthering Community policies for industry, training, transport, environmental improvement, research and development, small businesses and tourism.

Conclusions

The contours of the global economic landscape have changed radically over the past two decades. Globalisation of production and financial markets and rapid technological progress have led to far-reaching changes in national and regional economies, in patterns of employment and in the organisation of work. These have had positive effects, although unemployment and greater social exclusion have become structural problems of the Union economy over recent years.
The Union, meanwhile, is entering a critical period in the history of its integration process, with monetary union, enlargement and future financing high on the agenda.

In the face of the challenges, the Member States and the Union need to work in partnership to help the adjustment to new circumstances and to seize new opportunities for the benefit of all regions and people.
The primary responsibility for improving economic and social cohesion falls on the Member States. Efforts to maintain fiscal discipline and to combat the recent rise in public debt need to be continued. This should be done in a way which guarantees the maintenance of structural programmes which invest in the future, while ensuring that incentive systems, fiscal or otherwise, favour job creation.

At the same time, and as recognised by the Member States themselves when they signed the Maastricht Treaty, the harmonious development of the Union as a whole cannot be achieved through national policies alone. The Union's structural policies address cohesion directly while its other, non-structural, policies can also make an important contribution.

The most far-reaching of the non-structural policies has been the Single Market Programme which has swept away many of the obstacles to trade and helped to create an integrated European economy. Fears that this would overwhelm the poorer Member States have not been borne out in practice.
Many of the Union's non-structural policies have the potential to make a greater contribution to cohesion.

For the market policies of the Common Agricultural Policy, the Commission confirms its intention to continue resolutely the approach begun with the 1992 reforms in such a way as to develop further the environmental and social aspects in the context of a more integrated rural development policy, thus contributing even more effectively to cohesion.

For EU competition policies:

- *the Commission has reacted positively to the need for more flexibility in the granting of state aids by revising the* de minimis *rules and by creating a framework which addresses specific urban problems. It is the intention of the Commission to pursue its efforts to increase efficiency and transparency in the management of state aids;*
- *permitted aid ceilings for investment in the poorest regions of the Union tend to exceed levels affordable from national budgets, while lower aid ceilings are exploited more fully in richer Member States. The question arises as to whether a concerted effort should now be made to achieve a general reduction in expenditure on state aids;*
- *within the context of the concentration of resources on the most disadvantaged regions, the Member States and the Commission need to address, in partnership, inconsistencies between the regions which are supported under national regional policies and those which are supported under Union regional policies. Eligibility for Union regional aid should in the future become one of the criteria for allowing assistance under Member States' own regional policies.*

For the Union's RTD policy, which aims at promoting European competitiveness through scientific excellence, efforts to develop research activities and capabilities in the weaker parts of the Union must be continued. Innovation, mobility of researchers as well as increasing linkages and networks between RTD facilities in the Member States are particularly valuable to structural development. Efforts to ensure the widest diffusion of results and the pursuit of research attuned to the strengths of the weakest regions are also important. It is essential that the scientific and technological base of the less advanced regions be further strengthened as a major factor in helping to close the development gap with the richer regions.

For Union network policies in transport, telecommunications and energy supply, the basic need is to ensure that the whole Community shares in the benefits from innovation and liberalisation:

- *public service contracts and/or universal service obligations must be maintained and current targets achieved to ensure that regional and social needs are met in conditions where the market alone would not otherwise meet them;*
- *in transport, Union actions for intermodal networks must continue to promote sustainable mobility and ensure good linkages with local networks to maximise cohesion benefits. The advantages of public/collective transport for cohesion should be fully recognised;*
- *in telecommunications, steps may be required to promote access on favourable terms to new services in schools, hospitals, libraries, etc. Such measures should include adequate training and provision of the necessary equipment;*
- *in energy supply, greater effort is required to increase access to different energy sources in view of the greater dependence on oil in the poorest Member States.*

For social policy, further efforts need to be made: reducing unemployment and promoting fundamental rights, and, in particular, equal opportunities, will remain high on the Union's agenda.

For Union environmental policies, the challenge for the cohesion countries is to strike a balance between the push for economic growth and the need to protect the environment in order to ensure sustainable development. This challenge can be met by accompanying environmental measures in the form of an appropriate package of fiscal incentives, charges and public expenditure. Finally, in addition to improvements in the policies themselves, opportunities for synergy with the Union's cohesion policies need to be more systematically identified and addressed in order to make a more effective contribution to reducing economic and social disparities, while respecting the primary objectives of these policies.

The starting point for the Union's structural policies must be to guarantee long-term support for the poorest regions, in view of the profound disparities which persist between the lagging regions (Objective 1) and the rest. Solidarity with these regions is an important basis for progress not just for social reasons, but in order to increase the economic potential of the Union as a whole. Catching-up tends to be a slow process, necessitating a long-term commitment.

The problems affecting other parts of the Union must also be recognised: rapid economic and structural change, including changes affecting rural areas, urban deprivation, social exclusion, congestion and other territorial imbalances and the unsustainable use of scarce resources. The Union must be ready to support the process of adjustment affecting different regions, local communities and social groups, to accelerate their adaptation to new circumstances and to promote employment.

The Union's response to these problems is a strategic one which seeks to promote, in partnership with the Member States, investment in new areas of growth and sustainable development, to improve physical and human capital to raise competitiveness while helping SMEs exploit their full potential for job creation and develop their innovative capacity.

Effectiveness must be ensured through the quality of strategic responses and by the streamlining of the delivery system. There are a number of key areas for reflection:

- *scarce resources must be better targeted on the most serious problems and problem areas while addressing priority concerns which are relevant to the prevailing economic circumstances;*
- *a greater degree of performance orientation could be introduced into cohesion policies by directly linking performance criteria to the attainment of cohesion objectives. The Commission and the national authorities must cooperate further to improve programming, to increase the transparency of policies and to ensure that effective monitoring, control and evaluation systems are in place;*
- *more effort should be made to increase the use of loans and private sources of finance;*
- *opportunities must be more exhaustively explored for networking across regions and across borders to attain common goals and to exchange experience and best practice;*
- *in view of the complexity of present procedures, all avenues for the simplification of the financing and implementation of the measures need to be explored;*
- *strengthened subsidiarity should go hand-in-hand with widely drawn partnerships, which should play an active role in the programmes.*

With regard to the content of the Structural Fund programmes themselves, four priority concerns have emerged which Union cohesion policies have specifically sought to address: employment creation, which is the overriding priority for the Union and the Member States, competitiveness, environmental protection and equality of opportunity between the sexes.

Finally, structural policies as whole must become more flexible than at present in order to adapt to changing circumstances and, in particular, to be able to respond to new challenges and opportunities as they arise.

In seeking to prepare the way forward, it is important to begin dialogue now. This Report is intended to lend structure to this dialogue. It will be used to launch a debate involving the other institutions and bodies of the Union which are preparing their own position papers on the future.

It will be complemented by further initiatives. The first is the organisation of a major conference — a Cohesion Forum — in Spring 1997 which will provide a platform for a debate on structural policies with representatives of all interested parties.

Secondly, during 1997, the Commission will complete the mid-term review of progress under the different Objectives since 1994. This will provide an opportunity to adapt the programmes to new priorities for the remainder of the period, as well as serving as an experimental basis for actions to be taken after 1999. Meanwhile, new strategies recently negotiated for Objective 2 (only) for the period 1997–99 will be in place, which will give the Commission the opportunity to see how far they reflect a more focused approach to the major priorities which have been agreed with the Member States.

The Report should, therefore, be seen as a further contribution to the process of improving the effectiveness of Union action to promote economic and social cohesion.

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