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# EUROPEAN UNION STRUCTURAL FUNDS

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**ABSTRACT**

*This article considers what are the main developments of Structural Funds, focusing especially on the implications of enlargement. It reviews Agenda 2000 and what will be expected from the Structural Funds in the future. EU members aim to reduce the rate of SFs in the budget. The candidate countries will bring heavy economic burdens on the budget. The enlargement will involve not only a major expansion is size, but also in economic diversity and will increase regional disparities within the EU. It also creates political tensions and budgetary difficulties; the new countries will require equal access to funds but existing beneficiaries will be unwilling to see the funds they receive reduced.*

Regional Policy, Structural Funds, Agenda 2000, Enlargement,

## 1. INTRODUCTION

The European Union (EU) is far from homogenous- not only are there economic and social disparities within most of its member states, but also there are disparities between one state and another. This become clear, for example, when comparing economic wealth, the standard measure of which is gross domestic product (GDP) adjusted to take account of the purchasing power of different currencies (purchasing power standard, or PPS). If the average of the EU as a whole is expressed as 100, the difference in per capita GDP in 1997 ranged from 174 in Luxemburg, to about 101-10 in Belgium, Denmark, Germany, France and Italy, to a low 63 in Greece. Differences among regions within the member states were even greater, ranging from 222 in Inner London and 194 Brussels to 50 in the Azores and Ipeiros in Greece. About one quarter of Europe's more than 200 regions have a per capita GDP that is less than 75% of the EU average[1].

At the time of formation of the EC/EU regional disparities were not a priority as a period of prolonged economic growth. As economic problems began to emerge in the early 1970s and the EU was set to expand, support for

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1 Eurostat, February 1999.

EC regional policy grew .Generally speaking, the wealthiest parts of the EU are in the north-central area, particularly in and around the ‘golden triangle’ between London, Dortmund, Paris, and Milan. The poorest parts are on the southern, western and eastern peripheries: Greece, southern Italy, Spain, Portugal, Ireland, Northern_Ireland, western Scotland, and eastern Germany. ‘In the mid-1960s the_gap in per capita GDP between the ten richest regions and the ten poorest was 4:1. By 1970 it had fallen to 3:1, but recession and Greek membership pushed it up to 5:1 by the early 1980s’[2]. The Structural Funds are the main instrument for the eliminating of regional disparities of the EU members.

## 1. HISTORY AND DEVELOPMENT OF STRUCTURAL FUNDS

### 1.1 Before From Agenda 2000

Economic and Social Cohesion is one of the most important policies of the EU. It expresses the notion of solidarity between Member States, and aims to minimise socio-economic disparities between regions and social groups. But, at the time of formation of the EC, regional disparities were not a priority. The primary mechanism was the European Investment Bank (EIB). The Treaty of Rome set up the EIB in 1958. Article 3 provided for ‘the establishment of a European Investment Bank to facilitate the economic expansion of the Community by providing fresh resources’. This recognized the need for a mechanism to transfer capital between rich and regions and also to attract capital into the Community from outside. The Treaty also provided for the creation of a European Social Fund (ESF), intended to improve mobility within the labour market, primarily by providing funds for the training and retraining of workers affected by industrial restructuring.

The economic shock of 1973 and the economic restructuring that led from it highlighted development gaps between some Member States. These regional disparities increased significantly with the accession of Ireland, then Greece, Spain, and Portugal. The introduction of a genuine structural policy to lessen the gaps in development and living standards became a necessity. In addition to the ESF measures, other Structural Funds were introduced over the years, each one with a specific target. Thus, the Community created the European Agriculture Guidance and Guarantee Fund (EAGGF) in 1962 as part of the Common Agricultural Policy (CAP) package[3] .The guidance section of the EAGGF provides investment aid for a variety of measures to assist less favoured agricultural areas. The European Regional Development Fund (ERDF) was created in 1974 with the aim co-ordinating national regional policies and identifying areas of greatest need. Across the 1970s and 1980s a number of changes were made to the ERDF. Projects funded through

2 Cited John McCormick, Understanding the European Union: A Concise Introduction, Macmillan Press Ltd, London, 1999, p.128.

3 Ian BACHE, The Politics of European Union Regional Policy: Multi-Level Governance or Flexible Gatekeeping? Shefiield Acedemic Prees, Sheffield, 1998, p.14

ERDF fell under two broad categories: industrial and infrastructure. Both types were concerned either directly or indirectly with job creation.[4]

A major reform of the Structural Funds was carried out 1988 and in 1993 some details of regional policies were changed as a result of continuing inequalities (some are depressed agricultural areas with little industry and high unemployment), new types of problem regions (some are declining industrial areas with outdated plants), the southern enlargement which increased overall inequalities within the EU, and the commitment to complete the Single European Market.

The concept of economic and social cohesion was introduced in the Single European Act(1986), and since the Treaty on European Union(1992) it constitutes one of the three pillars of the EC, alongside the single market and European economic union[5]. Alongside the Structural Funds (SFs), the Cohesion Fund was established in 1993. It finances transport and environment infrastructure in the Member States whose gross domestic product per capita is less than 90% of the Union average. The Structural Funds and the Cohesion Fund are the main EC policy instruments for achieving economic and social cohesion, an objective made explicit by the SEA. However, Member States and Commission agree that 'Member State policies are the Union's primary instruments for achieving cohesion[6]. The question is, then, not whether Community policies by themselves are achieving economic and social cohesion but whether they achieve results that would not be achieved by Member State policies alone.

The prospect of enlargement to new countries with widely differing levels of development makes economic and social cohesion and its main instrument the SFs even more important. The SFs consist of; The European Social Fund (ESF); The European Regional Development Fund (ERDF); The European Agricultural Guidance and Guarantee Fund (EAGFF). These funds have operated since the reforms in 1988 according to four principles: concentration on a set of priorities; programming of assistance; partnership between as many parties concerned as possible and the additional Community assistance vis-à-vis national grants.

The EU Structural Funds were allocated according to the six objectives in below for the period of 1988-1999(with revisions in 1993).

**Objectives:**

**Objective 1:** promoting the development of 'less developed regions (those with per capita GDP of less than, or close to, 75% of the Community average).(ERDF, ESF and EAGGF [Guidance Section]),

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4 Bache, p. 14

5 Commission of the European Communities (CEC)(2000a) Structural Policy Reform, Internet: htpp://europa.eu.int/scadplus/leg/en/lvb/160013.htm

6 Commission, First Report on Economic and Social Cohesion, Brussels/Luxembourg: European Commission, 1996: 7

**Objective 2:** converting the regions seriously affected by industrial decline (ERDF, ESF),

**Objective 3:** combating long-term unemployment; assisting young people into work; helping people exposed to exclusion from the labour market; and promoting equal opportunities for women and men (ESF),

**Objective 4:** providing support for workers having to adapt to industrial changes (ESF),

**Objective 5: a)** accelerating the adjustment of agricultural structures (EAGGF [Guidance Section]; **b)** promoting the development of rural areas (EAGGF [Guidance Section], ESF, ERDF),

**Objective 6:** to promote development of regions with low population density (ERDF, ESF)

The total budget for the Structural Funds for 1994-1999 amount to ECU 154.5 billion, which is about one third of the EU's total budget and takes up approximately 1.2 % of the EU's GNP. The SFs are allocated on the basis of programming periods and channelled through three financial instruments: national programmes, community initiatives and innovative measures. Designated authorities in member states manage national programmes and community initiative programmes; the Commission itself manages innovative measures. The total budget of the Cohesion Fund for the period of 1994-1999 was about ECU 17 billion. The beneficiary countries for the 2000-2006 periods are the same as before (Ireland, Greece, Spain, and Portugal) and the Cohesion Fund budget for this period is about EUR 18 billion. However, the Commission will review their eligibility in the light of updated GDP data every year[7].

### 1.2. Agenda 2000

The restructuring of the Structural Funds for the 2000-2006 programming period had to contend with a number of challenges together such as the EMU, enlargement and budgetary policies. When enlargement occurs, it will bring into the EU countries from applicant countries with an average GDP per capita typically at around one-third of the existing EU15 average. The impact of enlargement on the future of structural and cohesion policy would depend on a number of factors. Of obvious importance was when the first wave of enlargement would take place and which countries would be involved[8].

Under the former structural fund regulations for 1994-1999, the entire territories of the countries of Central and Eastern Europe would qualify for Objective 1 and Cohesion Fund assistance. "Extending the former funds to Poland, Hungary, the Czech Republic and Slovakia would increase the

7 Raymond HALL and Rosenstock, M. (1998) "Agenda 2000, The Reform of EU Cohesion Policy", European Union Planning Studies, V.6 No.6, pp.635-644

8 Iain Begg, 'Structural Fund Reform in the Light Enlargement', Sussex European Institute Working Paper, No.25, University of Sussex, Brighton, 1998, p. 125

total costs of the funds to approximately ECU 48 billion"[9], and would double the funds if all ten countries of Central and Eastern Europe, Cyprus, Malta and Turkey became members after 2001. Thus, to fund the new 'winners' under structural policy, there would inevitably be 'losers'. This had to be accepted by those Member States likely to suffer a reduction in aid.

The probable impact of EMU on the Community's poorer regions is unclear. While accepting that the least favoured regions would have advantages in a monitory union, Armstrong[10] argues that 'these benefits will only be enjoyed in the long term. On the other hand, the burdens monetary union places on the disadvantaged regions will be felt much more quickly. The costs come first; the benefits come later'. He further argues that 'The burdens on weaker regions were likely to be threefold, resulting from the loss of exchange rate powers; the effects of the attempt to meet the Maastricht convergence criteria; and the effect of monetary union on attainment of the single market'.

As a solution of these challenges, in July 1997, the European Commission published a strategy document entitled Agenda 2000:For a Stronger and Wider Union. This document described the outlook for the European Union for the early years of the new century. It proposed that social and economic cohesion should remain a 'high priority'. In terms of the structural funds and the Cohesion Fund, the Commission proposed a budget of ECU 275 billion (at 1997 prices) for the period 2000-2006, as compared with ECU 200 billion (at 1997 prices) for 1993-1999. ECU 45 billion of this amount would be earmarked for the new Member States[11]. The Structural Funds were reformed as part of the Agenda 2000 package, which is intended to introduce tighter financial management, improve efficiency and reduce administration Agenda 2000 sets out a simplified system for structural funds comprising three main objectives: two regional objectives, and a horizontal objective for human resources. The coverage of the new objectives 1 and 2 would be reduced from 51 per cent to between 35 and 45 per cent 2006. Approximately two thirds of total funding would continue to be allocated to Objective 1 regions. For the structural funds, the Commission proposed co-financing a single multi-annual programme for each region. The thirteen Community Initiatives would be limited to three (cross-border, transnational and inter-regional cooperation; rural development; and human resources) and their share of structural fund resources would be reduced to 5 per cent[12]. Agenda 2000 further proposed that the Cohesion Fund should be retained in its current form for Member States with GNPs per capita of less than 90 per cent of the EU average and participating in the third phase of EMU[13]. Under

9 Bache, p.121
10 Harvey ARMSTRONG, 'What Future For Regional Policy?' PERC Policy Paper, 8; Sheffield:Political EconomyResearch Center, University of Sheffield, 1997, p. 7
11 Commission DG XVI 'Regional Policy and Cohesion, Newsletter No.42' July 1997: 1; http//www.europa.eu.int/en/comm./dg16/news/ennews/en0797.htm
12 Commission DG XVI 1997:1; Bache, p.123
13 John BACHTLER, "Reforming the Structural Funds: Challenge for EU Regional Policy", European Planning Studies, 1998, V.6, pp.645-664

the new Objective 1, the Commission proposed that eligibility be strictly limited to those regions whose per capita GDP was less than 75% of the EU average. The amount of funding to each of these regions would be determined by the size of population, the gap between the regional wealth and the EU average and national wealth. Objective 2, outside the Objective 1 regions, the Commission recognises that there are other areas, which suffer from particular difficulties, mostly from the effects of the economic and social restructuring, and these would be assisted under Objective 2. The Commission would distinguish eligible areas for Objective 2 according to origin of problem. Objective 3 would cover those regions not covered by Objectives 1 and 2. This would be aimed at helping those regions adapt and modernize their systems of education, training, and employment. Objective 3 is intended to focus on the active labour market policies to fight unemployment, and on promoting the integration of excluded social groups into the labour market[14]. Agenda 2000 was centred on three priorities: greater concentration decentralized and a strengthening of efficiency and control set against a background of budgetary discipline[15].

As table 1 illustrates the total appropriation for the Structural Funds and the Cohesion Fund stands at EUR 213 billion for the 2000-2006 period.

Table 1: Breakdown of Structural Funds and Cohesion Fund Between 2000-2006 (Million euro, 1999 prices)

| Year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| Structural measures | 32 045 | 31 445 | 30 865 | 30 285 | 29 595 | 29 595 | 29 170 |
| Structural Funds | 29 430 | 28 840 | 28 250 | 27 670 | 27 080 | 27 080 | 26 660 |
| Cohesion Fund | 2 615 | 2 615 | 2 615 | 2 615 | 2 515 | 2 515 | 2 510 |

Source: htpp: //europa.eu.int/scadplus/leg/en/lvb/160013.htm

It will be necessary to maintain this support during the next period (2000-2006) to ensure the harmonious development of the Union and to facilitate the necessary adaptation of human resources. Despite the significant success of the cohesion policy in recent years, there is still a long road ahead, in particular for employment: unemployment has not decreased significantly,

especially in many of the less developed regions. Disparities have even widened. This requires continuing financial support, on the other hand, for human resource development. In order to avoid serious absorption problems, overall transfers from the SFs and Cohesion Fund should not exceed 4% of the GDP of any current or future Member State.

14 CEC DG XVI, p.1-2; Raymond HALL, 'Agenda 2000 and European Cohesion Politics', European Urban and Regional Studies, 1997, V.5, No.2, pp.176-183

15 Commission 'Reform of the Structural Funds, explanatory memorandum:http//www.Europa.eu.int/pol/en/info.htm, 1998:2.

With the arrival of new member states with some regions more structurally, economically or socially deprived than current members, the SFs must be capable of promoting economic and social cohesion across the whole of the EU, assisting the most needy territories or social groups, whether they be from present member states or new ones. Agenda 2000 proposed a pre-accession strategy for all applicant countries including aid for agricultural development and structural aid for infrastructure and institutional adaptation worth 45 billion ECU[16]. The pre-accession strategy consists of a combination of priority setting coupled with financial assistance and preparation of the negotiations through screening. It also aims to help the candidate countries to prepare for their future membership by aligning with the Union's *acquis* before accession[17]. Agenda 2000 establishes a financial framework for supporting the pre-accession process in the applicant countries. The EU would be aid EUR 21 840 billion (at 1999 prices) to the applicant countries for the period 2000-2006 by using three instruments[18]. The instruments are:

- The PHARE programme: It was set up in 1989 to initially support the sweeping reforms behind economic and political transition in the countries. Since 1994, the programme has been characterised by a large increase in support for the Community acquis and the reinforcement of administrative structures, and for investment in infrastructure, including cross-border co-operation. The allocation will be EUR 1 560 billion per year (total EUR 10 920 billion) during the period 2000-2006.
- The SAPARD programme: Its' aims are to modernise agriculture and to promote rural development. The allocation will be EUR 520 million per year (total EUR 3 640 billion) during the period.
- The ISPA programme: it aims to familiarise these countries with structural project procedures and help applicant countries to comply with Community environmental standards and infrastructure standards in transport. EUR 1 040 billion per year (total EUR 7 280 billion) would be allocated[19].

There will be a substantial boost to the overall level of financial assistance. In Agenda 2000 the Commission proposed more than doubled pre-accession assistance to the candidate countries from the year 2000 onwards, making ECU 3.120 million available every year between 2000 and 2006. The Commission has also decided to set up, within the existing Phare budget, a special fund of 100 million ECU over the next two years for those

16 Commission, Enlargement Composite Paper, Office for Official Publication of the European Communities, Brussels,1999a, pp.25

17 Commission, Europe's Agenda 2000: Srengthening and widening the European Union, Office for Official Publication of the European Communities, Brussels/ Luxemburg, 1999b, pp.32

18 Commission, Structural Actions 2000-2006: Commentary and Regulations, Office for Official Publication of the European Communities, Luxemburg, 2000b, pp.126

19 Commission 1999a, p.42; Commission (1999c). Six Periodic Report on the Social and Economic and Development of the Regions of the EU, Office for Official Publication of the European Communities, Brussels/ Luxemburg,, pp,55

countries who are unable to begin negotiations for the time being[20]. This will help focus those countries' efforts in a number of priority areas, such as the privatisation and restructuring of the banking sector and of large state-owned enterprises, the promotion of Foreign Direct Investment, and the fight against fraud and corruption. In Agenda 2000, the Commission proposed to focus the Phare programme (EUR 1 560 billion per year) on preparing the candidate countries for EU membership by concentrating its support on two priorities that are crucial for the countries to function well within the EU: institution building and investment in the acquis[21].

## CONCLUSION

The Structural Funds are intended to narrow economic and social disparities across EU member states, and so they might be expected to play a central role when much poorer countries join. However, there is little indication that the 13 applicant countries will be allocated funds on the same criteria as those used for poorer regions and countries among the existing countries. The Commission's proposals in Agenda 2000 might help to solve the sensitive questions of structural funds reform and redistribution of them between existing members and candidate members for the period of 2000-2006. For EU, one reason for delaying of enlargement is to solve applicant countries' economic and social problems before entering into the EU.

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[20] Commission, 2000b, pp.42.
[21] Commission 1999b, pp.64

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13- CEC, *Regional Policy,* 2000c http//www. inforegio.cec.eu.int/wbpro /ispa/ispaen.htm

14- HALL, R '*Agenda 2000 and European Cohesion Policies'*, European Urban and Regional Studies, V.5, No.2, pp.176-183, 1997

15- HALL, R. and ROSENSTOCK, M *'Agenda 2000, The Reform of EU* Cohesion *Policy',* European Union Planning Studies, V.6 No.6, pp.635-644, 1998