CHAPTER 1

Introduction

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The structural and cohesion policies of the European Union (EU) are important for the economic and social integration of Europe. They are among the most significant areas of EU action in many respects. They have a direct impact on the lives of millions of citizens and may help to make the concept of Europe more relevant and meaningful to ordinary people. Annual expenditure on the Structural and Cohesion Funds has risen substantially in recent years and will reach 30 billion ecu by 1999. This will amount to 36 per cent of the Community budget, second only to agriculture. As the only major sphere of EU policy with explicit geographical targeting of resources, they are the main mechanism for tackling the large regional and social disparities within Europe by funding investment in long-term development projects. They also play an important political role in helping to compensate less developed parts of the Union for the adverse effects of exposure to competition from more advanced economies and giving something back to Member States which are net contributors to the EU budget. In several countries the value of EU subventions in this field now exceeds national expenditure on regional assistance.

The local 'reach' and locus of the Funds is highly significant. These are not standardised programmes administered by a remote and centralised bureaucracy. Under the principles of policy integration and partnership working, the preparation and implementation of development programmes often involves a more decentralised and collective approach to regional policy than has been practiced by national governments hitherto. There is expected to be 'horizontal' interaction between many regional and local authorities, social partners such as trade unions and business and voluntary and environmental groups as well as engagement with 'vertical' partners in national government departments and sections of the European Commission.

At their most effective, the regional partnerships emerging in some places are pioneering new, more creative and robust forms of governance based on trust and dialogue rather than central control and direction. Through training courses, job creation schemes, road improvements, environmental clean-up and small business support, regional programmes offer tangible benefits to many of the 180 million people living in officially designated areas.

The structural policies also impinge upon national systems of public administration, since implementation is complex and subject to intricate rules and procedures. Every three to six years, national governments and the Commission negotiate a financial envelope and map of eligible areas. Authorities within the Member States are then required to prepare regional development plans for each area designated under Objectives 1, 2, 5b and 6. These are subjected to independent scrutiny and then negotiated line-by-line with the Commission prior to revision. The mutually-agreed programmes set out a detailed strategy and resource allocation for the period. They contain a wide range of measures within the fields of business development, human resources, physical infrastructure, environmental improvement, rural development, urban regeneration and community economic development which are intended to be complementary and integrated. The budgets combine a mixture of EU funding – European Regional Development Fund (ERDF), European Social Fund (ESF), European Agriculture Guidance and Guarantee Fund: Guidance Section (EAGGF), Financial Instrument for Fisheries Guidance (FIFG) and European Investment Bank (EIB) loans. They also include national, regional and local government support and private sector contributions.

Once approved, the programmes are implemented and resources allocated through negotiation and interaction between the local partners or a more arms-length process of competitive bidding in countries. The combination of a three to six-year strategic time horizon with the scope to alter patterns of resource allocation in between as a reaction to the concerns expressed by organisations working at the sharp end of delivery could prove innovative and effective. It may provide a novel mechanism for regional planning which allows for much-needed flexibility and local initiative to pursue opportunities in response to accelerating change in the wider economy. The implementation process is overseen by specialist programme 'monitoring' and 'management' committees which meet regularly, in some cases supported by full-time independent executives and part-time advisory committees. Monitoring of financial and physical outputs is required through the lifetime of the programmes, complemented by interim and final evaluations of their efficiency and effectiveness.

In practice, the structural policy objectives, target areas, instruments and administrative procedures of the EU often diverge from national policies towards regional development, which generates suspicion, friction and even conflict between governments and the Commission. While some countries are able to administer the Funds through existing institutions and policy frameworks, others have had to establish new organisational arrangements for managing their programmes. For several countries the learning curve has been long, steep and difficult to climb. Government departments have had to gain familiarity with new terminology and development concepts (such as 'additionality' and 'subsidiarity'), and management and monitoring processes that can seem cumbersome and bureaucratic at times. There is a built-in tension between Commission concerns that the resources translate into additional, tangible activities on the ground and government interest in substituting EU funds for domestic expenditure at a time of increasing financial constraint. The regionalised approach to economic development has been a source of particular difficulty in countries where regional government does not exist. Government responses have often aggravated local authority concerns about excessive central interference.

The operation of the structural and cohesion policies has not been easy for the European Commission either. The three main funds are administered by different Directorates-General (DG), each with their own political and administrative priorities. At least five other DGs have an interest or responsibility in structural and cohesion policy and the Finance DG demands close financial auditing with considerable paperwork. Perspectives and approaches often vary within directorates, complicated by the different professional backgrounds, competencies and cultures of Commission officials. The Commission does not have a good reputation for timely decisions or efficiency and is often criticised by local partners, particularly outside the four cohesion countries (Ireland, Spain, Portugal and Greece) where the funds make a major contribution to development resources. In general, the credit for high-profile projects seems to go to local or national bodies, and the Commission's role in promoting good programme management or innovative policy thinking tends to get obscured by criticisms of its excessive bureaucracy, slowness or interference in local decisions.

With the current EU budgetary planning period scheduled to end in 1999, the structural policies are due for major review and reform. The internal political and administrative pressures that have accumulated over the last eight years require this anyway. In addition, the EU has to take some momentous decisions soon with far-reaching implications for regional policy. First, the steps towards monetary union and the Maastricht 'convergence criteria' are forcing most EU countries to undertake or accelerate fundamental structural changes, involving restrictions on public expenditure, deregulation, privatisation and economic liberalisation. The ultimate spatial consequences are uncertain, but the distribution of gains and losses is likely to be uneven in the short and medium term. Second, negotiations for EU enlargement are about to start, heralding the accession of at least four new countries (Poland, Hungary, Czech Republic and Slovenia). Their levels of income per capita are much lower than most existing Member States so the EU will face the considerable regional and social challenges arising from a simultaneous deepening and widening of Europe with a budget that may be little more than at present.

The main purpose of this book is to bring together some of the rich and diverse practical experience of the Structural Funds in different European regions and countries. It also aims to provide different perspectives on the policies and their implementation from the point of view of academics, independent evaluators and policy-makers. The structural policies are difficult to research because of their technical complexity, political intricacy and variable operation in different places. Previous studies have tended to be limited in geographical scope and lacking in detailed insights into the process. This book aims to provide a more comprehensive and in-depth understanding based on contemporary analyses and evaluations by people who have often had close personal involvement in studying, administering or advising the policy process. The chapters are all original contributions and many stem from substantial research and policy experience.

Given the wide scope of the Structural Funds, it has been necessary to prioritise somewhat and be selective in the book's coverage. The prime concern is with the structural policies rather than the cohesion issues that emerged with the accession of Spain, Portugal and Greece to the EU in the 1980s. The focus is on economic restructuring and development programmes, particularly in regions affected by the decline of traditional industries (Objective 2). There is less analysis of 'structurally-backward' regions (Objective 1) or agricultural and rural areas (Objective 5), although several chapters include some discussion of these issues and indeed Chapters 9 and 11 focus on Objective 1 programmes in the Scottish Highlands and Islands and Northern Ireland.

The book is structured in four parts. Part One provides an overview of the structural policies, their evolution and changing regional economic trends within the EU. Michie and Fitzgerald explore the basic rationale for the Structural Funds in the long-standing regional disparities within Europe and the prospect of further divergence as a result of market integration and

monetary union. Social solidarity and cohesion have always featured in the European project, often as counterweights to the business agenda of global competitiveness and free trade. The enlargement of Europe over the last decade has complicated structural policy by widening regional inequalities and adding new types of problem regions.

Armstrong and de Kervenoael then consider the patterns and processes of contemporary regional economic change in the EU. They examine the theoretical arguments and empirical evidence for regional convergence and divergence, concluding that neither process has dominated since the early 1980s. Nevertheless, individual regions have seen their relative positions deteriorate and the probability of turbulent economic change for at least the next decade means there continues to be an important role for the structural policies to play.

Part Two of the book considers a wide range of EU-funded regional development programmes and initiatives in the UK. Martin discusses the effects on local institutional arrangements and policies. He suggests that the Structural Funds have had a more visible impact on local authority practices than on the economy of eligible areas. They have encouraged more local networking and partnership activity, and a renewed interest in regionalism and strategic planning. Although there are positive aspects in such developments, there are many limitations too that follow from their opportunistic, funding-driven nature and the tight control exercised by central government.

In Chapter 5 Turok examines an important new feature of the regional programmes in Britain – the insertion of a theme concerned with regenerating the most deprived localities, sometimes called community economic development. It is an interesting innovation and likely to become more significant in the future but has given rise to a host of difficulties in implementation. These are partly a result of local and national institutional obstacles as well as unhelpful rules and inflexible procedures governing the Structural Funds. The experience in Western Scotland provides some pointers to the way forward.

Parts of London benefited from the Funds for the first time in the mid-1990s, indicating another shift towards supporting small areas within metropolitan regions. North discusses the institutional and economic challenges involved in developing a regeneration strategy for an area of this kind with essentially arbitrary boundaries. Trying to match the development opportunities in more prosperous parts of the area with the poverty elsewhere has been technically difficult, particularly to protect jobs for unemployed local residents. Planning and decision-making procedures for the Funds have also proved cumbersome and incapable of producing a strategic, co-ordinated outcome, partly because of interference from gatekeepers and the randomness of competitive bidding.

Nearly ten per cent of the Structural Funds are devoted to Community Initiatives targeted at specific themes and areas with particular problems. Dabinett focuses on those concerned with tackling the decline of industries such as shipbuilding, steel and coal mining. In principle they are an efficient way of responding to emerging crises and supporting local initiatives. They have also encouraged useful collaboration and networking among local authorities. However, there have been many practical difficulties in trying to add another structure and modest funding stream to a fragmented and overcrowded development environment that lacks overall strategy and co-ordination.

The English regions have a distinctive experience of the Structural Funds, and Bentley and Shutt's chapter looks at how the West Midlands and Yorkshire and Humberside have negotiated and implemented Objective 2 programmes. Existing development strategies were largely ignored as central government outposts in these regions took charge of the process. Arbitrary geographical boundaries and institutional proliferation have created further difficulties in integrating EU regional plans and expenditure with existing arrangements.

The Structural Funds are particularly significant in Objective 1 regions following an EU decision to concentrate some 70 per cent of the resources over the period 1994–1999 there. Bryden examines the ambitious policies of the Highlands and Islands programme. He argues that inadequate strategic analysis during plan preparation and resistance to partnership working have impeded effective implementation to date. There have also been difficulties in targeting resources towards the poorest areas, integrating large *ad hoc* projects to form coherent local development programmes, and ensuring a high degree of additionality in the use of the Funds.

Similar problems have arisen in the Northern Ireland Objective 1 programmes, as shown in Chapter 11 by McEldowney. They argue that there was a lack of novelty or integration among the wide-ranging EU-funded measures in the 1989–1993 programme of industrial development. Detailed evaluation found an uneven outcome, with some positive and tangible achievements, but considerable scope for improvement. They advocate a more focused approach to programme design in future if European support is to make a bigger difference to local policies and practices.

Environmental issues have featured more prominently in EU objectives and regulations in recent years. Goodstadt and Clement consider how and why this has happened, before focusing on efforts to promote mutually-supportive economic development and environmental measures in Clydeside. Efforts to integrate these objectives date back several decades, with an emphasis on the improvement of vacant and derelict urban land. Although much has been achieved with EU support, difficulties have been experienced with the relatively short timescale of the Structural Fund programmes, moves towards quantitative, commercially-oriented appraisal and evaluation procedures, and securing co-funding from less committed local partners.

Comparative research is important in drawing more general conclusions about the structural policies. Roberts and Hart provide a helpful review of seven diverse programmes drawn from Objective 1, 2 and 5b regions. They found that the preparation of regional strategies was hampered by inexperience, arbitrary boundaries and lack of guidance from the Commission. Subsequent negotiations over the Single Programming Documents (SPDs) tended to exclude local and regional partners. Implementation has raised concerns about the exclusiveness of some committees and the complexity of administrative procedures. Despite these drawbacks, they conclude that European programmes have injected a useful degree of longer-term, strategic thinking into local and regional development practices in the UK.

Part Three of the book examines the design and implementation of regional development strategies elsewhere in Europe. Bachtler and Taylor start the section with a wide-ranging overview of the formal strategies adopted in the 88 Objective 2 areas of the EU, that is those affected by industrial decline and unemployment. Several similarities in objectives and approach, alongside important differences, indicate that a variety of influences have been at work, including the general preferences of the Commission, national priorities and regional and local factors such as the nature of inherited problems and policies. Despite the rich detail and impressive diversity, many of the strategies fail to convince the reader that they stem from systematic analysis of their local economic situation and reflect the collective commitment of the various local partners.

Schrumpf discusses the impact of EU structural policies on Germany. They have had a profound influence on the national approach to regional policy as well as the institutional arrangements. The Funds have been particularly important in eastern Germany, but also in old industrial areas of western Germany. Evaluation suggests that they have had a tangible impact on economic progress, but this is hard to quantify and probably modest in scale. National economic developments and sectoral policies continue to dominate local economic trends, prompting Schrumpf to suggest that the focus on small and medium enterprises may be misguided.

The Netherlands had a very different approach to regional policy from the EU when the country first gained access to the Structural Funds. Bekker and Kleyn show how the systems have converged over time and how the Dutch have learned useful lessons about the need for integration, unified budgets, and clear objectives, targets and timescales in regional development policy. Some difficulties in reconciling the approaches remain and the Dutch would prefer a more decentralised and flexible system of programme design and management, and a broader, more qualitative approach to area designation and programme evaluation.

The Austrian approach had more in common with EU regional policy, including the partnership principle and emphasis on endogenous development. However, there were important differences too: a more informal, organic approach to policy making and evaluation and a more flexible method of designating problem regions to allow for growth centres to be included. These differences have created anomalies in the formulation and operation of programmes, excessive fragmentation and an unwarranted administrative burden, prompting some questioning of the EU approach.

Finland and Sweden are the newest members of the EU and an entirely new regional designation, Objective 6, was introduced to meet their special circumstances. Johansson describes the intricate changes in public administration that these countries had to make to accommodate the Commission's requirements before they could access the Structural Funds. Different approaches were adopted (centralised in Finland, decentralised in Sweden), reflecting the different history of regional policy and state procedures. While the new systems appear to have had some benefits, there have been significant teething problems too.

The final part of the book includes chapters reviewing the lessons emerging from the operation of the Structural Funds and considering the future challenges. They are written mainly by senior policy-makers from the Member States, whose perspective necessarily differs from academics and consultants and stems partly from a concern about the relationship with national policies and procedures and the impact and cost-effectiveness of the Funds.

Kearney writes as an ex-Commission official who has been closely involved in supervising the monitoring and evaluation of EU regional programmes in several countries. He provides insights into the Commission's policy thinking and practical difficulties experienced in managing the process with a small core staff and tight timescale. It has been a rapid learning process for all concerned, with acknowledged weaknesses and limitations. He argues that the increasing emphasis given to evaluation should help to

improve procedures in future, although the political, economic and technical challenges faced are considerable.

Relationships between the UK government and the Commission have sometimes been strained. As a former senior official in the Department of Trade and Industry, Wells provides a forthright account of the evolution of the structural policies and the part played by the UK government on issues such as evaluation and the environment. He expresses several reservations about the management and operation of the Funds and the role of the Commission in that process, criticising its use of Community Initiatives, the lack of objectivity in area designation, the slow and complicated procedures, unwarranted downgrading of support for infrastructure and neglect of private sector involvement.

Lagrange is generally more positive about the Structural Funds, which have become an integral part of regional development policy in France. There is more similarity between French and EU procedures than in many countries, which has made things easier. Differences have included the EU's greater emphasis on partnership, longer time horizons for funding and more systematic requirements for evaluation, all of which are regarded as virtues. Lagrange concludes by expressing some concerns about the bureaucratic procedures, delay and inconsistent decision-making within the Commission.

The reunification of Germany provides an interesting indication of the major economic challenges facing the entry of Central and Eastern European countries to the EU and the implications for the structural policies. Drerup, a senior official in the German Federal Ministry for Economics, explains that the country has benefited from very substantial EU resources, but the procedures to access them have given rise to several concerns of undue interference by the Commission and confusion over regional development objectives. For example, in negotiating Objective 1 support for eastern Germany, the Commission insisted on a much broader development programme than the federal government thought desirable or feasible in practical terms.

Finally, in Chapter 22 we address the agenda for reforming EU regional policy. The chapter summarises the key issues emerging from the contributions in the book and reflects on the achievements of the Structural Funds to date. We discuss the wide range of challenges facing the reform of the Structural Funds with regard to the objectives, focus and structure of policy and programming procedures, and the implications of monetary union and EU enlargement. We conclude with a review of the current state of reform discussions and some of the options and scenarios confronting EU and Member State regional policymakers.