CHAPTER 2

The Evolution of the Structural Funds

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Introduction

The purpose of the Structural Funds is to promote economic and social cohesion within the European Union – that is to reduce regional disparities within and between the Member States. Successive enlargements and the integration process itself have raised the priority of this objective. The development of the Structural Funds must be considered in the context of the expanding scope of European Community policy making and constitution building, and the changing dynamics of the relationship between the European institutions and the Member States. The notion of 'Europe of the Regions' has been widely promoted and debated. The trend towards regionalism complements other trends such as globalisation, cultural homogenisation, the emergence of the fledgling democracies in Central and Eastern Europe and the accelerated pace of the integration process in Europe.

The aim of this chapter is to outline the arguments used to support regional policy at European Union level, to trace the evolution and expansion of the Structural Funds and to identify the challenges posed to this policy area from the integration process itself, from the changing international economic environment and from the future enlargement of the European Union. It begins by looking at the rationale for structural intervention at European level, moves on to trace the development and expansion of the Structural Funds in tandem with the integration process and concludes with the issues and factors that present future challenges for the operation of regional policy in the European Union.

Rationale

As the scope of European Regional Policy has increased and the proportion of the European Union budget available for the Structural Funds has expanded, economists, political scientists and sociologists have offered a number of theoretical perspectives on the rationale for the Funds (Swann 1992; Tsoukalis 1991; Molle 1994). Central to the rationale is the argument that regional socio-economic disparities across the Union are unacceptably wide and that the Union has a responsibility to reduce these differences.

In its simplest terms, the problem is expressed as the core-periphery nature of the Union with a core of wealthy states and a less developed periphery. A glance at the map of Gross Domestic Product per capita illustrates the core-periphery nature of the Community's regional imbalances, ranging from 190 per cent of the EU15 average (Hamburg, Germany) to 42 per cent (Alentejo, Portugal) (Eurostat data for 1993 in purchasing power parties). Without a strong regional policy to reduce such differences, centralising forces will, arguably, dominate (Swann 1992, p.284). Further, many aspects of the integration process encourage the concentration of industrial activity in the centre of the Community, while the periphery may be bypassed. Successive enlargements exacerbated the disparities among the regions of the European Community, manifesting themselves as a North-South divide, with Ireland considered as part of the south.

> The spatial characteristics of the Community's regional imbalance conformed to the core-periphery concept used by economists and social scientists to analyse the inequalities between or among regions. The result was that the Community built its structural policy largely on the assumption of a poor periphery (Scotland, Ireland, Portugal, central and southern Spain, Corsica, southern Italy, Greece and eastern Germany) and a rich core (southern England, north eastern France, the low countries, north western Germany, and northern Italy). (Dinan 1994, p.404)

Clearly, the core-periphery pattern is a crude representation of the complexities of regional socio-economic change across the EU (see Chapter 3). However, the existence of major differences between different parts of the Union is the premise for EU policy intervention. Also, at international level, the Member States of the European Community take part in the integration process because they expect welfare gains from it, but there are also costs and these costs are not distributed evenly among the participating states. The argument is that the Union is best placed to tackle the negative impact of integration and to allocate resources for a 'fairer' distribution of the benefits of integration (Armstrong 1994; Dinan 1994; Swann 1992; Molle 1994; Tsoukalis 1992).

The issue of solidarity is also cited – if there was not a clear commitment to redress regional imbalances, the weaker economies might feel less inclined to participate in the further integration of the European Community/Union. The issue of solidarity was emphasised by Jacques Delors when he became President of the European Commission in 1985 as a crucial factor for the future development of the Union. In a speech to the European Parliament he cautioned members that enlargement negotiations with Greece, Spain and Portugal had:

> revealed a tension in Europe which is, let's face it, a tension between north and south. It stems not only from financial problems but from a lack of understanding, from a clash of culture, which seems to be promoting certain countries to turn their backs on the solidarity pact that should be one of the cornerstones of the Community, solidarity being conceived not in terms of assistance, but rather as an expression of the common-weal, contributing to the vigour of the European entity. (Commission of the European Communities, Bulletin EC 3/4 – 1985, p.6, 1985)

The Commission under Delors continued to view this solidarity as crucial. It also viewed the commitment to redistribution as essential to get agreement on the Single Market programme and, ultimately, political and monetary union. The acceleration of European Community integration in 1985 through the Single Market programme, the entrance of Greece, Portugal and Spain into the Community and the consequent tremendous increase in EC inter-regional imbalances, combined with an increasing demand for co-ordination of regional policy, led to a further, more wide-ranging, reform of the Community's regional policy in 1988.

EU Regional Policy 1970–1986

The European Commission's involvement in regional development can be traced back to 1957 when the Treaty of Rome required the Community to ensure 'harmonious' development by reducing regional differences and the backwardness of less-favoured regions. However, it was not until the mid-1970s that specific policy measures and budgets allocated to regional development were introduced, specifically with the establishment of the European Regional Development Fund in 1975. Since then regional policy has attracted an increasing share of Community resources. By the time the

Maastricht Treaty on European Union was concluded in 1991, economic and social cohesion had been elevated to become one of the EU's fundamental principles.

The Community's main instruments of regional development are the Structural Funds (the European Regional Development Fund, the European Social Fund, the European Agricultural Guidance and Guarantee Fund: Guidance Section and the Financial Instrument for Fisheries Guidance). The European Regional Development Fund (ERDF) was created with the objective of correcting 'the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural under-employment' and its main purpose was to 'finance investments in industrial, handicraft, or services activities, thereby creating new jobs or protecting those already existing' (Commission of the European Communities 1975).

In the first instance the ERDF was regarded as a compensation mechanism *(juste retour)* for countries that contributed an above-average amount to the EC budget. At this stage the limited ERDF resources were allocated on a quota basis and implemented through Regional Development Programmes, exclusively in support of the regional policies of Member States, and to areas designated by Member States.

In an attempt to raise the profile of Community regional policy at the end of the 1970s, the Commission proposed to take a systematic approach to analysing regional problems and the development of regional policy. This included the evaluation of the regional impacts of other important areas of common policy and the co-ordination of regional policies in Member States. The outcome was the creation of a 'non-quota' section of the ERDF, making five per cent of the expenditure quota-free and independent of designated areas. How the funds were to be used was to be decided by a unanimous Council of Ministers decision. For the first time, funding was allocated to Common Programmes/Initiatives rather than individual applications for support by individual Member States.

The next revision of Community regional policy culminated in new guidelines in 1984. The objectives of the ERDF were redefined to emphasise the development and structural adjustment of lagging regions and the conversion of declining industrial regions. The need to make Community regional policy more effective was recognised and, consequently, the Commission proposed to extend the quota-free part considerably, tie investment to regional development plans and develop a common procedure for designating areas eligible for Community regional policy assistance. This met resistance from Member States and the compromise was a prolongation of the quota system, but within flexible minimum and maximum limits. In absolute terms, the ERDF budget had increased almost tenfold during the 1975–1985 period (from 258 million ecu (mecu) in 1975 to 2290 mecu in 1985) and the ERDF's share of the EU budget increased from 4.8 to 7.5 per cent.

The 1988 Reform of the Structural Funds

The accession of Spain, Greece and Portugal to the Community brought a substantial widening of regional disparities within the Community and led to a doubling of the population of the least-favoured regions. In addition, the process of market liberalisation which had begun with the Single Market White Paper was expected to increase risks of regional imbalance. Indeed, several Commission reports warned of the dangers of not sharing the 'reward' of the Single European Market, of the 'serious risks' of aggravated regional imbalance in the course of market liberalisation and the need for adequate accompanying measures to speed adjustment in the structurally weak regions and countries. The increased regional imbalances were perceived as a threat to the realisation of the Single Market; the rationale behind the 1988 reform of the Community's regional policy was to improve the effectiveness of the Structural Funds and, therefore, economic and social cohesion in the Community.

The reform of the Structural Funds was completed at the end of 1988 with a redefinition of the 'tasks of the Structural Funds and their effectiveness' and with the 'co-ordination of their activities between themselves and with the operation of the European Investment Bank and the other financial instruments' (Commission of the European Communities 1988a; 1988b). On this basis, common criteria for designating problem regions, the scope and forms of assistance, guidelines and reporting requirements were developed.

The reform also introduced a number of principles for the implementation of EU regional policy:

- the submission of plans by the Member States under priority objectives
- the implementation of partnership between competent authorities at national, regional and local levels
- the additionality of Community measures
- the compatibility of structural policy with other Community policies (e.g. competition policy, environment policy)

- the concentration of resources, with particular emphasis on the least-prosperous regions
- the co-ordination and combination of different Community instruments.

The programme approach involved a shift from individual project support to programme financing with plans covering, initially, a period of three or five years. Each Member State had to submit regional development plans, linked to the priorities and objectives of the Funds, outlining their intentions as to the use of Community resources to the Commission for approval. The plans were negotiated with the Commission to construct Community Support Frameworks (CSFs), which outlined the aid priorities for the Community in relation to what was proposed by the Member State. The CSFs outlined the priorities to which subsequent implementation measures, in the form of Operational Programmes (OPs) or other instruments, related.

Both planning and implementation were to be undertaken within a partnership between competent authorities at different administrative levels. Partnership was defined as 'close consultations between the Commission, the Member States concerned and the competent authorities designated by the latter at national, regional or local level, with each party acting as a partner in pursuit of a common goal' (Commission of the European Communities 1988a, Article 4). National authorities were given delegated discretion to appoint members of the partnership.

The issue of additionality was a fundamental principle underpinning the reform of the Structural Funds and ensuring their effectiveness. In principle, it meant that national government expenditure should match EU expenditure and that EU funds should not be used as a substitute for funds from national sources. Compatibility implied that the proposed plans and measures be coherent overall with both EU and national policies and, in particular, environmental and competition policies. Concentration of resources implied concentration of available financial resources: on the least prosperous regions, on a small number of priorities and on a small number of sectors. This was mainly undertaken through designation procedures for different types of assisted areas and by focusing on a small number of priorities and sectors during the planning process. Finally, financial co-ordination was to be achieved through co-financing and integration between EU financial instruments and also integration with national incentives.

In terms of budgets, the reform involved a doubling of the Structural Fund budgets (from 6.3 billion ecu (becu) in 1987 to 14.1 becu in 1993) and a doubling of the budget allocated to underdeveloped regions. The intention was to allocate up to 80 per cent of the ERDF budget (4.5 becu in 1989) to Objective 1 regions, although this was not quite achieved (see below).

The 1988 reform assigned a number of specific objectives to the Structural Funds, to which they would be either jointly or separately assigned, as follows:

- Objective 1: Development of structurally-backward regions (ERDF, ESF, EAGGF)
- Objective 2: Converting regions in industrial decline (ERDF, ESF)
- Objective 3: Combating long-term employment (ESF)
- Objective 4: Increasing youth employment (ESF)
- Objective 5(a): Adjustment of agricultural structures (EAGGF)
- Objective 5(b): Development of rural areas (EAGGF, ERDF, ESF).

Eligibility criteria and connections between funding instruments and objectives are as shown in Table 2.1.

The 1993 Reform of the Structural Funds

The origin of the second Structural Fund reform dates to the European Council meeting in Maastricht in December 1991. The perception of many Member States that the Community should move towards closer economic and political union was accompanied by a recognition that measures to achieve economic convergence would be endangered without associated action to improve economic and social cohesion. The Maastricht Treaty on European Union upgraded the importance of EC regional policy, with the Treaty establishing economic and social cohesion as one of the pillars of the Community structure, and agreement being reached to set up a new 'Cohesion Fund' for the poorer Member States. Reflecting these developments, the Structural Fund budget was increased from approximately 43.8 becu over the 1988–1993 period to over 141 becu for 1994–1999 (at 1992 prices).

The amendments made to the operation of the Structural Funds during the second reform were fairly minimal. The main changes concerned eligibility criteria, programming periods and administrative procedures. The Objective 1 regions for 1994–1999 were set out in the 1994 Structural Fund Regulations, while areas eligible under Objectives 2 and 5b were chosen on the basis of proposals submitted by Member States (rather than unilaterally by the Commission, as previously). The Regulations continued to be based on the same principles contained in the 1988 Regulation, that

Table 2.1 Objectives, allocated Structural Funds and eligibility criteria

Objective	*Support available from*	*Eligibility criteria*
Objective 1	ERDF, ESF, EAGGF	Regions at NUTS level II[1] with GDP per head less than 75 per cent of the Community average or regions included as special cases.
Objective 2	ERDF, ESF	Regions at NUTS level III with: • higher than average unemployment the last three years • industrial employment as percentage of employment above Community averagethe last 15 years • an observable fall in industrial employment relative to reference year or substantial job losses in specific industries
Objective 3	ESF	Not regionally restricted.
Objective 4	ESF	Not regionally restricted.
Objective 5a	EAGGF,	Not regionally restricted.
Objective 5b	EAGGF, ESF, ERDF	Regions with: • high share of agriculture employment in total employment • low level of agricultural income • low level of socio-economic development • other factors like de-population, peripherality, size of holdings.

Source: CEC 1993

1 The Nomenclature of Territorial Units for Statistics (NUTS) was established to provide a single uniform breakdown for the production of regional statistics. The nomenclature sub-divides each Member State into a number of NUTS I regions, each of which in turn is sub-divided into NUTS II regions, which are themselves sub-divided into NUTS III regions. In total there are 71 NUTS I regions, 183 NUTS II regions and 1044 NUTS III regions.

is planning, partnership, additionality, compatibility, concentration and co-ordination.

In addition to the changes which would affect the existing three Funds, a new Structural Fund was established, the Financial Instrument for Fisheries Guidance (FIFG), to support diversification of the fisheries sector. Changes were also made to Objectives 3 and 4, widening Objective 3 to include the occupational integration of young people, and introducing a new Objective 4 focusing on adaptation of the workforce to industrial change.

Coverage in the EU12

Objective 1 regions cover over a quarter of the EU12 population (26.6%) and include the entire territories of Greece, Ireland and Portugal, together with most of Spain, much of Italy and all of the east German *Länder*. In addition, Objective 1 includes parts of more prosperous Member States, notably Hainaut in Belgium and Flevoland in the Netherlands. The basic eligibility criterion for Objective 1 is that per capita GDP at NUTS II should be less than 75 per cent of the EU average. However, this requirement has been applied with considerable flexibility and there are a number of Objective 1 regions which do not fulfil this criterion.

Objective 2 regions cover around one-sixth of the EU12 population (16.8%) and include parts of all the Member States except Greece, Ireland and Portugal. Objective 2 designation is based on the NUTS III region and the criteria are primarily concerned with levels of unemployment resulting from industrial decline. Unlike the other three spatially-restricted objectives which were designated for the period 1994–1999, Objective 2 areas were initially designated only until the end of 1996.

Objective 5b covers under one-tenth of the EU12 population (8.2%) and again includes parts of all the Member States except for the three Objective 1 countries. The primary criterion for Objective 5b designation is a low level of socio-economic development as measured by GDP per capita. In addition, designation depends on one of the following: a high level of agricultural employment, a low level of agricultural income or demographic disadvantage.

Budgetary Allocations

It was agreed before the 1988 reform to double the Structural Funds from 6.3 becu in 1987 to 14.1 becu in 1993 (totalling approximately 43.8 becu over the 1988–1994 programming period), concentrating aid on the poorest, most structurally underdeveloped (Objective 1) regions.

The commitment appropriations for the Structural Funds (including the FIFG) in the EU12 for the 1994–1999 period are 141,471 becu (rising from just over 20 becu in 1994 to 27.4 becu in 1997). Some 68 per cent of the appropriations have been allocated to the Objective 1 regions (see Table 2.2). It is intended that the additional Structural Fund assistance, together with the Cohesion Fund, will permit a doubling of commitments in real terms for the four Cohesion Member States (Greece, Ireland, Portugal and Spain) between 1992 and 1999.

Table 2.2 Community appropriations for the Structural Funds for 1994–1999 (mecu at 1992 prices)

	Structural Funds	*Objective 1*
1994	20,135	13,220
1995	21,480	14,300
1996	22,740	15,330
1997	24,026	16,396
1998	25,690	17,820
1999	27,400	19,280
Total	**141,471**	**96,346**

Source: CEC 1993

As provided for in the revised Regulations, the Commission made indicative allocations by Member State for each of the Objectives (see Table 2.3). Much of the criticism of the Commission's handling of budget designations following the 1988 reform of the Funds centred on the alleged lack of transparency and objectivity in the financial allocations to Member States and regions under the different objectives. Article 12 of the Framework Regulation makes clear the Commission's approach for making allocations under Objective 1–4 and 5b: 'taking account of national prosperity, population of the regions, and the relative severity of structural problems, including the level of unemployment and, for appropriate objectives, the needs of rural development' (Commission of the European Communities 1993b, p.56). Spain, Germany and Italy benefit most in terms of straightforward funding allocations, followed by Greece and Portugal.

At the Edinburgh European Council in 1992 it was agreed that a Cohesion Fund, provided for in the Maastricht Treaty, would be set up with an allocation of 15.15 becu over a seven-year period (1993–1999). The Fund was intended for the four EC Member States whose GDP per capita was less than 90 per cent of the Community average, that is Greece, Portugal, Ireland and Spain. The Fund provides financial support for projects in two specific areas: environmental protection, to ensure that the four Member States in question are better equipped to comply with EU environmental policies; and transport infrastructure, considered vital for the completion of the trans-European networks and the Single Market.

Improvements in these two areas would have a very significant effect on regional competitiveness and so were central to the notion of cohesion. Assistance is provided for up to 85 per cent of the total cost of projects.

Table 2.3 Indicative funding allocations 1994–1999 (1994–1996 for Objective 2 regions) (mecu at 1994 prices)

	Objective:-						
Member State	*1*	*2*	*3 & 4**	*5A EAGGF*	*5A FIFG*	*5B*	*Total*
Belgium	730	160	465	170	21.6	77	1623.[illegible]
Denmark	–	56	301	127	135.5	54	673.[illegible]
France	2190	1765	3203	1742	170.7	2238	11,308.[illegible]
Germany	13,640	733	1942	1068	65.8	1227	18,675.[illegible]
Greece	13,980	–	–	–	–	–	13,980
Ireland	5620	–	–	–	–	–	5620
Italy	14,860	684	1715	680	118.6	901	18,958.[illegible]
Luxembourg	–	7	23	39	1.0	6	76
Netherlands	150	300	1079	118	41.2	150	1838.[illegible]
Portugal	13,980	–	–	–	–	–	13,980
Spain	26,300	1130	1843	326	105.6	664	30,368.[illegible]
UK	2360	2142	3377	361	78.3	817	9135.[illegible]
Total†	**93,810**	**6977**	**13,948**	**4631**	**738.8**	**6134**	**126,238.[illegible]**

* Excluding amounts made available to Objective 1 regions. † EU12

Source: European Commission

Projects receiving support from the Structural Funds are not eligible for support from the Cohesion Fund. The approximate ratio of spending has been set at 60:40 in favour of transport.

Community Initiatives

The Community Initiatives (CIs) are separate spending programmes co-financed by the Structural Funds. Unlike the Community Support Frameworks, they are based on guidelines drawn up by the Commission. During the 1988–1993 programming period, the number of Community Initiatives increased enormously, together accounting for almost nine per cent of the Structural Fund budget. While acknowledging that the Community Initiatives were an area of Community regional policy which had been criticised by the Member States, the Commission maintained that they are an important instrument with a genuine Community dimension, enabling measures to be undertaken which extend beyond national borders. They also provide a means of experimenting with innovative measures and they permit the Community to respond, at relatively short notice, to unforeseen regional development needs that emerge in the course of a programming period.

The conclusions of the Edinburgh Council gave the following guidance for future Community Initiatives: '(they) should primarily promote cross-frontier, transnational and inter-regional co-operation and aid to the outer-most regions, in accordance with the principle of subsidiarity' (Commission of the European Communities 1993a, p.11). A fundamental review of Community Initiatives was undertaken in June 1993 with the launch of a Green Paper consultative document with the aim of encouraging 'a wider debate about the priorities which need to be tackled by Community Initiatives during the coming period...based on lessons which can be drawn from the experience in the first phase' (Commission of the European Communities 1993a, p.4).

Following this review, a new set of thirteen Community Initiatives was launched in mid-1994: INTERREG II (inter-regional co-operation); RECHAR II (coal dependent regions); RESIDER II (steel dependent regions); RETEX (textile dependent regions); KONVER (defence-industry dependent regions); URBAN (urban areas); SME (small and medium size firms in disadvantaged regions); PESCA (fisheries dependent regions); LEADER II (rural areas); ADAPT (adaptation of the workforce to industrial change); EMPLOYMENT (employment and training measures for disadvantaged groups); REGIS (ultra-peripheral regions); and an Initiative for the Portuguese textile industry. An additional Initiative has since been launched in the Republic of Ireland/Northern Ireland (the Peace Initiative).

Accession of New Member States in 1995

The accession of Sweden, Austria and Finland to the EU had little overall impact on the EU's regional policies. Past reforms of the Funds were often in response to the accession of poorer Member States. However, the new members' GDPs are not substantially different from the Community average and the current Structural Fund framework was therefore considered to be adequate to cope with an EU comprising fifteen Member States. The main adjustments required included the allocation of funding to the new entrants (5884 mecu for the 1995–1999 period) and dealing with areas which did not fit the traditional Objective 1, 2 and 5b categories but which were considered to be sufficiently disadvantaged to require attention.

Although these countries are relatively prosperous in relation to other members of the EU, they do have areas of low income and high unemployment and, particularly in Sweden and Finland, regional policy has a strategic dimension since there is a very low population density in many of the remote northern regions. From the point of view of the accessants, integration into the Structural Fund programmes was one of the most important points to be covered by the Membership Treaties. In the Treaty of Accession additional funds were provided to account for allocations for the new members within the existing programme period up to 1999 (see Table 2.4). As the existing Objectives 1, 2 and 5b had limited applicability in the acceding countries (in particular, the Nordic countries), the Membership Treaty established a new Objective 6 within the Structural Funds with the aim 'to promote the development and structural adjustment of regions with an extremely low population density' (less than eight inhabitants per square kilometre) (see also Chapter 17 for further details).

Table 2.4 Structural Fund allocations to the New Member States 1995–1999 (mecu at 1995 prices)

Member State	*Objective 1*	*Objectives 2 & 5b*	*Objective 6*	*Total*
Austria	184	1439	–	1623
Finland	–	1193	511	1704
Sweden	–	1190	230	1420
Total	**184**	**4591**	**1109**	**5884**

Source: European Commission

The total of 5884 mecu (at 1995 prices) represents an additional expenditure of 4.5 per cent compared to an expansion of 7.4 per cent in the Community's population. In addition to the Objective 6 areas, a region in eastern Austria (Burgenland) with 269,000 inhabitants (3.5% of the population) was added to the list of the EU's Objective 1 regions.

Conclusion: Challenges for Regional Policy

Several key political, economic and social factors will affect the future operation of regional policy in the European Union. These include the integration process itself, notably the commitment to political and monetary union, changes in the international economic environment and enlargement of the Union.

The European Union is engaged in constitution building with a view to expanding its policy capacity, particularly with a view to strengthening the Single European Market with a single European currency. Through the Maastricht Treaty on European Union, the Member States set out a series of steps towards a common currency. The implications of EMU for disadvantaged regions cannot be predicted, although some economists believe that

disparities will widen rather than contract. One of the key issues will be how the Union responds to increased pressure for intervention. The Member States have agreed a ceiling for the Union's budget so the question will be about resource reallocation rather than resource generation. This is always a complex political process with both economic and political implications.

The institutional framework in the Union is considered inadequate to accommodate political and monetary integration. The particular focus for concern is the weak role of the European Parliament and the so-called democratic deficit. While the European Parliament has assumed an increased role in the policy process of the EU in recent years, it does not have the power to check the executive as legislatures do in liberal democratic nation states. Furthermore, the Council of Ministers enacts laws without direct reference to the parliaments of the states in which the law has force. The integration process itself and the continuing enlargement of the Union also raises questions about the functioning of the Commission as a political and administrative body.

There is awareness of the need for reform, indeed the rhetoric of the Union has included this issue for some time. However, there is not widespread agreement as to what configuration this reform should take and there are differing emphases between Member States and between elites and electorates. At the centre of this dilemma are questions relating to national sovereignty, the relationship between the Member States and the European institutions and the capacity of the present institutional framework to be both efficient and representative. The result is that there is uncertainty about the future of regional policy, both in terms of the volume of funding for the Structural Funds and the priority of future policy objectives.

The changing international economic environment also has implications for regional policy. Increasing competitiveness, globalisation, the emphasis on innovation and the shift towards a more service-orientated society with an enhanced role for 'learning' are all factors contributing to the difficulties of regions that are peripheral, disadvantaged or 'lagging' behind. The case for intervention has been made, but the political will and the capacity for the Union to sustain a high level of structural intervention are dependent on a number of factors such as enlargement, the need to compete internationally and the requirement to be innovative and efficient.

The issue of enlargement, whether to the south or the east, presents further challenges for regional policy. The position of the Central and Eastern European countries (CEECs) is indicative of the scale of economic difficulties. Gross Domestic Product per capita in the CEECs is about 30 per cent of EU average. The main challenge facing these countries is to continue the move towards a market-driven economy and to put in place the legal and administrative framework necessary for membership of the European Union.

The Commissioner for Regional Affairs has been keen to underline the commitment of the Member States to the existing disadvantaged regions and to avoid a situation where these states become hostile to the enlargement because they feel they will lose out in terms of the Structural Funds. She suggests that transitional provisions are necessary to regulate the application of individual policies concerning enlargement towards the East because the operation of the Funds needs to be reformed and existing policy goals need to be pursued more rigorously (Wulf-Mathies, October 1995). The Commissioner also underlines the fact that the administrative apparatus of the CEEC states would not be capable of managing the complex processes of the Structural Funds for a number of years, therefore a gradual incorporation into Community structures would also be in the interest of these countries.

The nature of co-operation and integration within the Community differs from traditional inter-state co-operation because its founders aspired to create a new political entity, a United States of Europe. The Structural Funds were seen as instruments to tackle the disparities that exist between the Member States. The objectives of regional policy are both economic and political. Regional policy will become increasingly problematic as well as important in the context of further integration and enlargement. The demonstrable impact of regional policy will be crucial and the demand will be for efficiency, effectiveness and transparency in the manner in which Structural Funds are applied and accounted for. In an increasingly complex economic and political milieu, the issue of coherence will be critical.