A new partnership for cohesion

convergence competitiveness cooperation

Third report on economic and social cohesion

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Foreword

The purpose of this report, the result of work undertaken over the past three years, is to set out the European Commission's vision for the future of Europe's policy to reduce disparities and to promote greater economic, social and territorial cohesion.

It's preparation has not just been a technical exercise. On the contrary, it has involved extensive consultations at European, national, regional and local level in an effort to ensure that this new vision responds to needs and to the legitimate expectations of Europe's citizens.

In the course of these consultations, I have been asked many searching questions on the impact — the "added value" — of the interventions of the European Union in this field. For example, has cohesion policy succeeded in reducing the economic, social and territorial inequalities in standards of living and levels of opportunity?

The report provides a detailed response to such important questions. It confirms that Europe's added value has been significant at many levels, in terms of the rapid reduction of the gaps in incomes between rich and poor, the creation of many new opportunities often in innovative activities and the creation of the networks linking regions, businesses and people across the continent.

The report also confirms that an equally important contribution has been made to the way that we in Europe tackle our economic problems. European cohesion policy has been the catalyst for new forms of partnership involving the regional and local authorities, national governments and the Union, working both within and across national borders, planning and implementing common development strategies.

All of this essential work will be far from over when the current generation of programmes comes to an end in 2006. The future holds many challenges as a result of the major increase in the Union's social and economic disparities following enlargement, a likely acceleration in the pace of economic change as a result of greater competition due to globalisation, the effect of the new technologies revolution and the development of the knowledge economy. To these global economic changes are added those of an ageing population and the effects of migration from

outside the Union into its cities and towns. In addition, the Heads of State and of Government of the Union, meeting in Lisbon in March 2000, set out an ambitious target of making Europe *the most dynamic and competitive knowledge based economy in the world*.

In order to respond to these economic and political challenges, the Commission proposes a new cohesion policy for the period 2007–2013, one that allows all of the Member States and all of the regions to act as partners for growth that is sustainable, and for greater competitiveness. Efforts in the future must be concentrated, as now, on helping the poorest parts of the Union to catch up, especially in the new Member States. But the Commission also proposes that the serious difficulties facing other parts of the Union should be addressed, for example, those that result from economic change, urban decline or permanent natural handicaps.

The new generation of cohesion policies should be implemented through a more simplified and decentralised management system. Only by bringing all on board, and by mobilising the talents and resources of all its regions and citizens can Europe succeed. It is this that is the aim of the proposed *New Partnership for Cohesion*.

Michel Barnier

Table of contents

Table of contents

Executive summary

Introduction: the policy context and cohesion objectives

Economic growth in the EU has slowed appreciably over the three years since the publication of the last Cohesion Report. As a result, unemployment has risen again in many parts of the Union with all the social implications which this entails. The sluggish performance of the EU economy over the long-term, however, suggests that there are more fundamental problems that need to be overcome if growth is to be sustained at an acceptable rate in future years.

These problems are reflected in the low growth of productivity in the EU in recent years, especially as compared with the US. Unlike in the Union, growth in the US has accelerated as innovation has increased and the use of information and communication technologies (ICT) widened. At the same time, up until the 2001 recession, employment growth was generally higher than in the EU and a large number of people of working age were in employment, In consequence, income per head in the US has remained some 30% above the EU level.

If growth in the EU is to be sustained once recovery gets underway, investment in physical and human capital needs to be increased, innovation needs to be stepped up and ICT more widely used to boost productivity and employment. This, however, needs to happen not just in central parts where productivity and employment are highest and innovative capacity most developed but throughout the Union.

While it is instructive to consider the performance of the EU economy overall, it is important not to ignore the wide disparities in output, productivity and employment which persist between countries and regions. These disparities stem from structural deficiencies in key factors of competitiveness — inadequate endowment of physical and human capital (of infrastructure and work force skills), a lack of innovative capacity, of effective business support and a low level of environmental capital (a blighted natural and/or urban environment).

Countries and regions need assistance in overcoming these structural deficiencies and in developing their comparative advantages in order to be able to compete both in the internal market and outside[1]. Equally, people need to be able to access education and training in order to develop their capabilities wherever they live. EU cohesion policy was strengthened some 15 years ago at the time the single market project was initiated precisely to meet these parallel needs. Such assistance is even more important now in the face of the widening of disparities which enlargement entails.

The contribution of cohesion policy to EU growth

If the EU is to realise its economic potential, then all regions wherever they are located, whether in existing Member States or in the new countries about to join, need to be involved in the growth effort and all people living in the Union given the chance to contribute. The cost of not pursuing a vigorous cohesion policy to tackle disparities is, therefore, measured not only in terms of a loss of personal and social well-being but also in economic terms, in a loss of the potential real

income and higher living standards. Given the interdependencies inherent in an integrated economy, these losses are not confined to the less competitive regions or to individuals who are not working or who are in unproductive jobs but affect everyone in the Union.

Strengthening regional competitiveness throughout the Union and helping people fulfil their capabilities will boost the growth potential of the EU economy as a whole to the common benefit of all. And, by securing a more balanced spread of economic activity across the Union, it will reduce the risk of bottlenecks as growth occurs and lessen the likelihood of inflationary pressure bringing growth to a premature end. It will equally make it easier to sustain the European model of society and to cope with the growing number of people above retirement age and so maintain social cohesion[2].

Situation and trends

A narrowing of disparities between EU Member States but major challenges remain

Disparities in income and employment across the European Union have narrowed over the past decade, especially since the mid-1990s. Between 1994 and 2001, growth of GDP per head in the Cohesion countries, even excluding Ireland, was 1% a year above the EU average, and the proportion of working-age population in employment in all apart from Greece increased by much more than the average.

In Greece, on the other hand, as in Ireland, growth of labour productivity was over twice the EU average over this period and it was also well above average in Portugal. In these two countries, therefore, the productive base seems to have been strengthened, increasing the potential for continued convergence in income in future years.

Despite the narrowing of disparities, large differences remain. In Greece and Portugal, GDP per head is still only around 70% of the EU average and in Greece and Spain, some 6–8% fewer people of working age are employed than the average.

Disparities in both income and employment will widen much further when the new Member States join the EU in the coming months. Average GDP per head in these 10 countries is under half the average in the present EU and only 56% of those of working age are in jobs as against 64% in the EU15.

Although growth in these countries taken together has been around 1½% a year above the EU average since the mid-1990s, it has slowed since 2001 as markets in the Union on which they are dependent have been depressed. Achieving the high rates of growth in future years which they require for development depends on growth being sustained in the present Member States. Equally, however, given the interdependencies, high growth in the new countries can be a significant boost to the rest of the enlarged EU economy. But to attain this, they will need substantial help over the coming years to tackle their wide-ranging structural problems and realise their growth potential.

Disparities at regional level

Regions suffering from structural weaknesses which limit their competitiveness and prevent them from contributing fully to sustainable economic growth in the EU tend to be those which suffer from low productivity, low employment and social exclusion.

Regions with problems of competitiveness, however, are not confined to the Cohesion countries in the present EU and the new Member States. A number of regions, despite adequate endowment of infrastructure and human capital, have deficient innovative capacity and difficulty in sustaining economic growth.

Increasing convergence of lagging regions in the EU

Development problems are more acute in lagging regions which lack the necessary infrastructure, labour

skills and social capital to be able to compete on equitable terms with other parts of the Union. These regions, which either receive assistance under Objective 1 of the Structural Funds or will do so in the near future, are largely concentrated in the Cohesion countries and the new Member States.

Since 1994 when the Structural Funds were strengthened, GDP per head in Objective 1 regions has converged towards the EU average. Between 1994 and 2001, growth of GDP per head in these regions taken together averaged almost 3% a year in real terms as against just over 2% a year in the rest of the EU

The extent of convergence, however, has varied markedly between regions, in large part reflecting their relative importance in the Member States in which they are situated. In those in the four Cohesion countries, which benefited from both substantial assistance and growth-oriented policies at national level, growth of GDP per head was much higher than in the rest of the EU.

The number of people in employment has also risen markedly in the Cohesion countries since the mid-1990s. The increase was particularly large in Ireland and was even larger in Spain, although the employment rate remains well below the EU average. The increase was more modest in Portugal and in Greece.

Outside of the Cohesion countries, growth in Objective 1 regions has been less impressive, dragged down in part by slow national growth. In the German new Länder, GDP per head increased by much the same as the EU average between 1994 and 2001, but in the Italian Mezzogiorno, it was below average. In both cases, however, productivity rose by more than in the rest of the EU, implying perhaps an improvement in competitiveness, but little if any employment growth. Only 43% of working-age population in southern Italy were, therefore, in jobs in 2002, well below anywhere else in the Union, while unemployment remains high in the new Länder.

Strengthening competitiveness and employment creation

There are a number of areas in the EU in which structural problems deter investors and inhibit the growth of new economic activities despite reasonable levels of infrastructure and work force skills. These tend to be old industrial regions or those with permanent geographical and other characteristics which constrain development.

There are, for example, 11 NUTS 2 regions in the EU15 in which growth of GDP between 1994 and 2001 was around half the average or less (at only 1% a year or so) and in which GDP per head in PPS terms was above the 75% threshold for Objective 1 support but significantly below the EU average. These regions are spread across the Union, in the north-east of England, in northern parts of Germany and in sparsely populated-areas in the north of Sweden. In each case, they had low growth of productivity as well as of GDP per head. Many contain areas in which GDP per head is below 75% of the EU average.

The challenge for cohesion policy in these cases is to provide effective support for economic restructuring and for the development of innovative capacity in order to arrest declining competitiveness, falling relative levels of income and employment and depopulation. A failure to do so now will mean the problems are even greater when action is eventually taken.

A substantial widening of regional disparities with enlargement

Some 92% of the people in the new Member States live in regions with GDP per head below 75% of the EU25 average and over two-thirds in regions where it is under half the average.

If Bulgaria and Romania, where GDP per head is under 30% of the EU25 average, were to join the Union, the population living in regions with GDP per head below 75% of the EU average would more than double from the present number (from around 73 million to

over 153 million). The gap between their average GDP per head and the EU average would also double (from around 30% below average to over 60% below).

At the same time, economic restructuring has led to a fall in the number employed in the new Member States, with the result that the proportion of working-age population in employment is well below the EU15 average.

The effect of enlargement is to add just under 5% to EU GDP (measured in Euros) but almost 20% to the Union's population. As a result, average GDP per head in the EU of 25 Member States will be around 12½% less than the average in the EU of 15. For 18 regions with GDP per head at present below 75% of the EU15 average with population totalling around 19 million, including Malta, one of the new Member States, this will mean that their income per head is no longer below the 75% threshold.

Since the regions concerned have exactly the same structural weaknesses after enlargement as before, there is a compelling case for maintaining support.

Social cohesion and the risk of poverty

A significant number of people in both the present and new Member States have income levels which put them at risk of poverty, in the sense of relative deprivation (defined as income below 60% of the median in the country where they live). In 2000, around 55 million people, some 15% of the total population, faced the risk of poverty, more than half of these having income levels this low for three years in a row. The proportion was relatively high in the countries of southern Europe and Ireland and was also higher than the EU15 average in many of the accession countries. (`Accession countries´ is used throughout this report to denote the 10 new Member States plus Bulgaria and Romania.)

Households most at risk of poverty tend to be those with people aged 65 and over, especially if they live alone, and lone parents (predominantly women), especially in the UK.

The risk of poverty is closely linked to unemployment and inactivity. Almost 40% of the unemployed had income below the poverty level in 2000, while the integration of people with disabilities, the long-term unemployed and ethnic minorities into employment remains a key challenge if the risk of poverty and social exclusion is to be reduced.

The ageing of the population and increasing dependency rates

Population of working age will begin falling over the present decade in all four southern Member States, Germany and most of the accession countries. In the next decade, the fall will spread to all countries, apart from Ireland, Luxembourg and Cyprus. On the latest projections, the number of people aged 15 to 64 is projected to be 4% smaller in the EU15 in 2025 than in 2000 and in the accession countries, 10% smaller.

This decline will be accompanied by substantial growth in the number of people of 65 and over. By 2025, there will be 40% more people than now beyond retirement age in both the present EU15 and the accession countries, implying a ratio of under three people of working-age for every one aged 65 and over as opposed to a ratio of over four to one at present. Other things being equal, the ageing of population will lead to a gradual contraction of the EU's work force and is likely to have implications for growth potential.

The significance of this, however, will depend on real income and employment growth in future years, which will determine the ease or difficulty of supporting those in retirement. In practice, only 64% of people of working-age in the EU15 and 56% in the accession countries are in employment and generating income at present. The effective ratio, therefore, is already only around 2½ people in work to every one in retirement in the enlarged EU. In 2025, if employment rates remain the same, this ratio will have fallen to under two to one.

These prospects give added importance to the need to sustain economic growth across the EU and to increase employment rates and reduce early retirement. Immigration could in some cases be an important source of additional labour supply, giving greater prominence to ensuring the effectiveness of integration policies.

Narrowing disparities in regional competitive factors

As indicated above, two complimentary sets of conditions need to be satisfied for regions in the Union to sustain economic development and employment in a competitive environment. The first is that they must have suitable levels of both physical infrastructure (efficient transport, telecommunications and energy networks, good environmental facilities and so on) and human capital (a labour force with appropriate levels of skills and training). The second is that, in the new knowledge-based economy, regions must have the capacity to innovate and to use both existing know-how and new technologies effectively as well as to follow a development path which is sustainable in environmental terms. To achieve both requires an effective institutional and administrative framework to support development.

Improving infrastructure endowment

Over the past decade, transport links both within the Cohesion countries and between these and the rest of the EU have improved markedly. In particular, with Structural Fund support, the density of the motorway network in these countries increased from 20% below the EU15 average in 1991 to 10% above in 2001. This increase, however, was largely concentrated in Spain and Portugal. In Objective 1 regions as a whole, though the density was higher than 10 years earlier, it was still only around 80% of the EU15 average. In the accession countries, motorway density is much lower still (under 20% of the EU15 average). Construction is occurring at a rapid rate, despite the environmental trade-offs that have to be made, but mostly around capital cities or on transit routes to the present Member States.

Some modernisation of the rail network across the Union has occurred over the past decade, but the rate of electrification of lines and conversion to double track has occurred at much the same pace in the lagging parts of the EU as elsewhere, so the gap remains large. In the accession countries, the state of the railways reflects decades of neglect and considerable investment is needed both for modernisation and for replacement of worn-out track. The need for investment, however, is no less acute for roads. The increase in road building, however, is reinforcing the rapid shift of both passengers and freight from rail to roads.

In telecommunications, the number of fixed telephone lines in relation to population remains much lower in both the cohesion and accession countries. This is being offset by a rapid rise in mobile phone use, though in Greece and the accession countries, usage is still less than the EU15 average, in most of the latter, substantially so. At the same time, access to broadband lines, which is important for internet use and the development of various ICT applications and services, shows wide disparities across the Union, broadly in line with relative levels of prosperity. Availability is still very limited in many parts of the EU15 as well as in nearly all the accession countries.

Other infrastructure — schools, colleges, health facilities and social support services of various kinds — is equally important, since it is likely to have a growing influence on decisions of where to invest and locate new businesses. This is especially the case in respect of knowledge-based activities, which are not tied to any particular location by a need to be close to sources of raw materials or a large market.

As regards the environment, the need for investment remains substantial in the Cohesion countries and, even more, in the accession countries, as reflected, for example, in much smaller proportions of the population connected to waste-water treatment plants as compared

with other parts of the Union. The need is no less important, however, in waste management and control of emissions, especially given the rapid growth in road use occurring in the accession countries.

Strengthening human capital

While the European Employment Strategy launched in 1997 has contributed to increasing the resilience of employment in a period of economic slowdown, important structural weaknesses remain in both present and new Member States.

In order to prevent unemployment and support the integration of the unemployed into work, there is a need to offer personalised services to job seekers in the form of guidance, training and new job opportunities. Developing preventative and active labour market policies is particularly important in the new Member States to promote economic restructuring.

A high level of education and skills is of increasing importance both for individual advancement and economic competitiveness. The relative number of people with education beyond basic schooling remains much lower in Objective 1 regions than in the rest of the EU15, especially in Spain, Italy and Portugal, the one exception being the German new Länder. Here the relative number is more similar to that in the accession countries, where it is much higher than the EU15 average (around 80% or more as against an EU15 average of 64%).

The skills obtained from further education and initial vocational training in the accession countries, however, are not necessarily in line with labour market needs and curricula and teaching structures are not well adapted to the modern economy. Moreover, many fewer young people than the EU15 average go on to complete university-level education, which is a key requirement for making a significant contribution to the development of the knowledge-based economy. This is also the case in the present Objective 1 regions in the Union, where, despite the increases over the past decade or more, the gap with the rest of the EU remains large.

Equally, many fewer people in both the cohesion and accession countries seem to participate in continuing training than in the rest of the Union (under 20% of those employed in enterprises in Greece, Portugal and all the accession countries apart from the Czech Republic and Slovenia in 1999), despite the critical need to adapt to economic change.

Strengthening social cohesion

Economic, employment and social policies are mutually reinforcing. Economic development must go hand in hand with efforts to reduce poverty and to fight exclusion. Promoting social integration and combating discrimination is crucial to prevent social exclusion and to achieve higher rates of employment and economic growth, notably at regional and local level.

Equally, providing comprehensive support to those most disadvantaged, such as ethnic minorities and early school leavers, can be important in securing economic and social gains throughout the EU.

Continuing disparities in innovative capacity

In an increasingly knowledge-based economy, innovation holds the key to regional competitiveness. The capacity to innovate, access knowledge and exploit it, however, varies between regions in both the existing and the new Member States. While the aim of policy is not to ensure that all regions have the means for contributing equally to advances in new technologies, they should nevertheless be equally placed to take advantage of those advances and to put them to productive use.

Various indicators, however — the relative scale of R&D expenditure, employment in research activities and the number of patent applications, in particular — suggest that there is a wide gap in innovative capacity between the stronger regions in central parts of the Union and others. (According to the latest figures, 8 of the 213 NUTS 2 regions in the present EU account for around a quarter of total R&D expenditure in the Union and 31 are responsible for half.) There is a similarly

wide disparity both between the accession countries and the EU15 average and, within the former, between capital city regions and others.

There is a growing consensus about the importance for regional competitiveness of good governance — in the sense of efficient institutions, productive relationships between the various actors involved in the development process and positive attitudes towards business and enterprise. Nevertheless, regions still differ markedly in these respects and in their ability to develop their own competitive advantage given the expertise they possess.

Impact of Member State policies on cohesion

Public expenditure in Member States is a great many times larger than the amount spent by the EU on cohesion policy. Whereas the former averages around 47% of GDP, the budget allocated to cohesion policy amounts to a bit less than 0.4% of EU GDP. Nevertheless, despite its relatively small size, EU cohesion policy performs a valuable role in tackling the underlying causes of disparities across the Union in income and employment. While Member State policies involving public spending are mainly directed at providing basic services and income support, EU cohesion policy is focused on reducing the structural disparities which directly affect the economic competitiveness of regions and the employability of people.

Public expenditure mainly focused on ensuring access to basic services …

The bulk of public expenditure in Member States, therefore, goes on providing a range of services aimed at ensuring that everyone has access to education, health care and social protection. Together these three functions account for almost two-thirds of total government spending in the EU. By contrast, public spending on investment in human and physical capital amounts to only just over 2% of GDP on average and is under 4% of GDP in all countries apart from Ireland and Luxembourg. The amount spent by national governments on business support services, higher education, innovation and R&D is similarly low (the latter averaging only around 0,3% of GDP across the EU).

In relation to the sums allocated to structural expenditure by Member States, therefore, the scale of the budget for cohesion policy no longer seems so small. Moreover, unlike the former, EU structural spending is concentrated in the regions which are most in need of assistance (the EU structural allocations to Greece and Portugal, for example, amount to around 2½% of their GDP in each case).

And contributes significantly to narrowing regional disparities in income…

For the most part, government expenditure per head of population in relation to GNP on basic services, like education and health care, is relatively similar across regions in Member States, reflecting a concern to ensure a common level of provision to people irrespective of where they live. However, the main variation occurs in spending on social protection because of differences in unemployment and the number of people in retirement, although spending on administration also differs because of government ministries being concentrated in the national capital.

The combined effect of these tendencies is that the contribution of public expenditure to income is in general much higher in the less prosperous regions than in the more prosperous ones, but mainly because of the lower level of income rather than higher public spending.

While government revenue is proportional to income

Government revenue, on the other hand, seems to be broadly proportional to income, in the main because in all Member States most taxes are levied centrally

either on income or expenditure. It, therefore, does not tend to offset the positive contribution of public expenditure to reducing income disparities between regions. Moreover, in countries where a significant proportion of revenue is raised locally, redistribution mechanisms are in place to reduce disparities in the income available to regions to fund expenditure.

The widespread trend towards devolving responsibility for public services to regional and local level has not, therefore, been accompanied by a similar trend in respect of raising the money to fund these services. The main exception is Italy, where responsibility for raising revenue is being increasingly devolved to the regions without a counterpart strengthening of regional transfers.

Foreign direct investment: a major factor in regional development

Foreign direct investment (FDI) can potentially play a key role in reducing regional disparities in economic performance not only as a source of income and jobs but as a means of transferring technology and know-how to lagging regions, It is particularly important for the accession countries, in need of substantial restructuring of their economies and of a step increase in productivity and competitiveness. Irrespective of the financial inducements on offer, however, foreign investors are not necessarily attracted to places where the need is greatest, for much the same reasons as domestic investors (infrastructure deficiencies, the lack of a skilled work force, and so on).

FDI, therefore, tends to go disproportionately to the stronger rather than the weaker parts of the Union. Over the period 1999–2001, investment inflows represented around 21% of GDP in Ireland — the country with the second highest GDP per head in the EU — 15% in Denmark (the country with the third highest level) and 13% in the Netherlands (the fourth highest). By contrast, inflows into Portugal amounted to only just over 4% of GDP, while the countries with the smallest inflows were Spain (1½% of GDP), Italy (1%) and Greece (just under 1%).

Within countries, FDI is generally concentrated in and around large cities, especially national capitals, with very little going to lagging regions. The new German Länder, excluding the eastern part of Berlin, therefore, accounted for only just over 2% of total inflows into Germany between 1998 and 2000 and Objective 1 regions in Spain for under 10% of inflows into the country in 2000. Similarly, in Italy, under 4% of the total employed in foreign-owned companies were in the south of the country.

The same general pattern is evident in the accession countries. In 2001, over two-thirds of inward FDI into Hungary went to the Budapest region, over 60% of inflows into the Czech Republic to the Prague region and a similar proportion of inflows into Slovakia to Bratislava.

Impact of Community policies: competitiveness, employment and cohesion

Unlike structural policy, other EU policies are not aimed principally at narrowing regional disparities or reducing inequalities between people. Nevertheless, they have implications for cohesion and in many cases take specific account of disparities.

Building the knowledge-based economy

Community enterprise, industrial and innovation policy is aimed at strengthening the competitiveness of EU producers by promoting competition, ensuring access to markets and establishing an environment which is conducive to R&D across the Union.

As is recognised, a lack of innovative capacity at regional level stems not only from deficiencies in the research base and low levels of R&D expenditure but also from weaknesses in the links between research centres

and businesses, and slow take-up of information and communication technologies. The Innovation Relay Centres which have been set up and the Innovating Regions in Europe network are therefore designed to encourage regions to develop innovation policies and to provide technological support to businesses.

Disparities in access to Community funding for research programmes are still evident, particularly at regional level, though the Sixth Framework Programme is in part aimed at improving links between scientific centres in the more central parts of the EU and those in peripheral areas.

Strengthening education and training

The skills of its work force are the EU's prime comparative advantage in global competition. A high level of education and the provision of a high standard of training, which is accessible to people throughout their working lives, are key to strengthening innovative capacity throughout the EU and to the attainment of the Lisbon objective of making the Union the most dynamic knowledge-based economy in the world. The 'Education and Training 2010' programme has been implemented to help achieve this end, with the complementary aim of making education and training in Europe "a world reference for quality by 2010'.

More and better jobs in an inclusive society

At the Lisbon European Council, the EU defined a comprehensive strategy aimed at long term economic growth, full employment, social cohesion and sustainable development in a knowledge based society. The European Employment Strategy (EES) was revised in 2003 better to underpin in an enlarged Union the objectives set at Lisbon and was directed at supporting Member State efforts to reform their labour markets, achieve full employment, increase quality and productivity at work and reduce social disparities.

Success in implementing the EES depends on a clear commitment from Member States to help workers and enterprises increase their adaptability, attract more people into employment; invest more, and more effectively, in human capital and improve governance. Action to increase social inclusion contributes both to reducing inequalities in access to employment and to raising the growth potential of the economy. Following Lisbon, a common strategy for social inclusion was adopted by the EU in 2001. The second generation of national action plans produced by Member States in 2003 recognises the muliti-dimensional nature of social exclusion and need to combat it through a wide range of measures by making economic, employment and social policies mutually supportive.

The Union's commitment to equality between men and women needs to be translated into a comprehensive mainstreaming approach, ensuring that all policies take account of their gender impact in planning and implementation. If the Lisbon employment target set for 2010 is to be achieved, the factors underlying the gender gap in employment, unemployment and pay need to be tackled vigorously. In this respect, actions which attract women into employment, encourage them to stay longer in the labour market and make it easier to reconcile a working career with family responsibilities through the provision of care facilities should be further pursued.

Environmental protection for sustainable growth and jobs

Sustaining economic development and creating long-term, stable jobs depends on protecting the environment against the potentially damaging effects of growth and on preventing excessive depletion of exhaustible resources. The Sixth Environmental Action Programme, *Our Future — Our Choice*, sets out the environmental actions necessary to sustain the pursuit of the EU's economic and social objectives. These involve limiting climate change, preserving the natural environment and biodiversity, reducing emissions damaging to health and diminishing the use of natural resources by cutting waste. They also involve taking account of environmental considerations when implementing structural policy decisions involving investment.

Although there are costs to environmental protection, not least in the lagging regions where infrastructure needs tend to be greatest, there are also substantial potential gains from improvements in health and job creation in the eco-industries, as well as from more sustainable development.

The internal market and services of general economic interest

Liberalising the markets for transport, telecommunications and energy has led to increased efficiency and lower prices. It has also, however, involved a threat to particular social groups or regions of being excluded from access to essential services. Public service obligations have, therefore, been established to ensure that everyone can obtain essential services — or 'services of general economic interest' — of reasonable quality and at affordable prices, as required by the EU Treaty (Article 16). Community funds have been made available to help ensure that these obligations are respected across the EU.

At the same time, the trans-European transport networks have increased the accessibility of the more remote regions and facilitated the expansion of trade, and those planned to link the new Member States with the existing ones are likely to have similar effects. The trans-European energy network guidelines, adopted in 2003, put increased emphasis on investment in gas pipelines and electricity distribution systems in landlocked, peripheral and ultra-peripheral regions in future years. And the trans-European telecommunication network programme (or eTEN) is intended not only to improve communications between more remote regions and other parts of the EU but also to tackle deficiencies in ICT applications and services.

Reforming common policies: agriculture and fisheries

Although expenditure under the Common Agricultural Policy (CAP) has declined gradually over time, it still accounts for almost 47% of the Community Budget.

Since the reform process began in 1992, direct aids to producers have risen to 70% of total spending, but they remain below the EU average in Spain, the only cohesion country where this is the case. On average payments are larger relative to income for large and medium-sized holdings than for small ones.

Support for rural development in the 2000–2006 period is larger in Objective 1 regions (56% of the total spent) than in other parts of the EU, though only around 10% of this goes on measures to strengthen the rural economy outside of agriculture. In the next programming period, 2007 to 2013, CAP expenditure will be lower in real terms, with a decoupling of direct payments from production, a reduction of payments to large holdings, lower prices and more emphasis on both rural development and the environment.

With enlargement, employment in agriculture in the EU will increase by around 60% with a substantial rise in the number of small holdings. The share of total spending under the CAP going to Objective 1 regions in the new and existing Member States is estimated to increase by around 10 percentage points to some two-thirds.

The Common Fisheries Policy (CFP) is aimed primarily at conserving fish stocks and restructuring the industry to ensure its sustainability. The recent emergency measures introduced will have significant effects on a number of regional economies, especially in Spain and Portugal. While in the longer-term, a slimmed-down industry should return to profitability once the emergency measures come to an end, in the short-term, it is largely the responsibility of Member States to alleviate the adverse social and economic consequences.

Of the accession countries, only Poland and the three Baltic States have fishing industries of any size and these are already in decline. Together their total catch amounts to under 7% of that in existing Member States.

State aid and cohesion policy

Insofar as the present regime allows for discrimination in favour of problem regions, control of state aid can both

contribute to and support cohesion policy. In line with commitments made at the Stockholm Council, overall expenditure on state aid fell significantly in money terms between 1997 and 2001 and declined relative to GDP in 12 of the 15 Member States. At the same time, spending is increasingly being shifted towards horizontal objectives. Nevertheless, it remains higher in the more prosperous Member States than in the Cohesion countries.

In 2001, only around 9% of total state aid in the EU took the form of assistance to Objective 1 regions and the amount involved was under a third of that in the peak year of 1993, mainly because of large reductions of aid to the German new Länder as well as to southern Italy. Regional aid to Objective 2 areas accounts for around 6% of total state aid.

Given its effect on the regional distribution of economic activity and income, the control of state aid remains of major importance in the context of enlargement. For the period after 2006, efforts will therefore continue to be made to modernise, simplify and clarify state aid rules, taking account of changes in cohesion policy, with the aim of having less but better targeted assistance.

Justice and home affairs: improving the conditions for development

A high crime rate, the existence of organised crime and corruption tend to inhibit economic development and deter potential investors. A strengthening of the capacity to combat crime, increased cross-border cooperation, improved controls of external borders and better integration of third-country nationals into society are, therefore, all ways of supporting regional development. This is particularly the case in the accession countries.

Perceptions of Community policies in the regions

Surveys carried out among regional officials across the EU indicate that Community policies are largely identified with Community funding and that projects financed by the Structural Funds tend to be both the most visible and those regarded as having the greatest impact. This is especially the case in Objective 1 regions and most particularly in the Cohesion countries. The positive impact of the Community INTERREG Initiative was also acknowledged because of its focus, visibility and stimulus to cooperation.

While the effect of the CAP on cohesion was generally regarded as being positive in regions where agriculture was most important, it was claimed to be unfair in Mediterranean regions and to favour the most profitable farms and the most developed areas in other cases. The absence of a link between the CAP and environmental policy was criticised, while the integration of environmental considerations into regional development policy was widely welcomed, as was the incorporation into the latter of investment in R&D infrastructure, considered especially important in Objective 1 regions.

At the same time, there was widespread criticism of the high cost of managing Structural Fund programmes in the present period and of the increasing complexity of procedures. By contrast, the greater involvement of businesses and the social partners was viewed as an important advance which should be carried further.

The impact and added value of structural policies

The scale and direction of intervention in Objective 1 regions

The Structural Funds and the Cohesion Fund, which amount to only around 0.4% of EU GDP, are concentrated on assisting the least prosperous parts of the Union. In the 2000–2006 period, the amount transferred to Objective 1 regions is equivalent to 0.9% of GDP in Spain and over 2½% of GDP in Greece and Portugal. More significantly, these transfers are

estimated to add some 3% to investment in Spain and 8–9% in Greece and Portugal, as well as 7% in the Italian Mezzogiorno and 4% in the German new Länder.

In most cases, national public expenditure supplementing Structural Fund interventions was larger in real terms in the 1994–1999 programming period than the previous one, increasing the amount available for investment by 40–50%. This was added to further by private funding, which was especially significant in Austria, Germany, the Netherlands and Belgium, though the amounts 'levered' in this way were relatively small in the Cohesion countries, France and the UK. The leverage effect on private investment in the present period seems to be similar, though much smaller in Germany.

Structural expenditure is also supplemented by European Investment Bank (EIB) loans. Lending to assisted areas in the EU15 totalled EUR 20 billion a year between 2000 and 2002, over half of which went to Objective 1 regions, and that to the accession countries EUR 3 billion a year. Over a third of loans went to investment in transport in the present Objective 1 regions, while in the accession countries, 90% went to transport, the environment and energy.

The Structural Funds have been deployed, in particular, to reduce disparities in infrastructure and in human capital endowment between Objective 1 regions and other parts of the EU. Transport systems, both trans-European links and secondary networks within regions, have, therefore, been improved markedly over the past decade, while counselling and training have been given to the unemployed and those in work vulnerable to job loss in order to increase their employability and their skills. At the same time, support has been given to R&D and innovation, both to construct new research capacity and, equally importantly, to help formulate regional strategies for directing R&D towards meeting local opportunities for development, as well as to furthering the spread of ICT and the basic skills required to use the new technologies.

In addition, a significant proportion of the Structural Funds (14% in the 2000–2006 period) has gone to financing investment to improve the environment, to waste management and waste water treatment especially, while environmental considerations are explicitly taken into account when deciding structural interventions.

The effect of intervention on real convergence and economic integration

Empirical analysis shows not only that growth of GDP, employment and productivity in Objective 1 regions has exceeded that in the rest of the EU since the mid-1990s in particular, but that convergence has been most pronounced in the least prosperous regions among these. (It should be noted that this analysis is based on a consistent set of data specially compiled for the report.) It also indicates that structural interventions have boosted growth in the Cohesion countries both by adding to demand and strengthening the supply side of the economy. In Spain, therefore, GDP in 1999 is estimated to have been some 1½% higher than it would have been without intervention, in Greece, over 2% higher, in Ireland, almost 3% higher and in Portugal, over 4½% higher. In addition, GDP in the new German Länder is estimated to have been increased by around 4% as a result of intervention.

Structural intervention has also encouraged a growth of trade between Cohesion countries and other parts of the Union — which has more than doubled over the past decade — and closer integration. The evidence suggests that, on average, around a quarter of structural expenditure returns to the rest of the Union in the form of increased imports, especially of machinery and equipment. This 'leakage' is particularly large in the case of Greece (42% of expenditure) and Portugal (35%).

Since a large proportion of any increase in spending in the new Member States goes on imports and around 60% of these come from the existing EU Member States, structural expenditure in these countries is likely to involve similarly large leakage effects to the benefit of growth in the rest of the Union. As in the Cohesion countries, this spending tends to go disproportionately on imports of machinery and equipment, to

the benefit of Germany, in particular, which accounts for around 45% of all such imports purchased from the EU15.

Intervention in Objective 2 regions: restructuring and job creation

Over the period 1994–1999, 82 regions in 12 Member States received Objective 2 assistance totalling around EUR 2,4 billion a year (increased to EUR 3,3 billion a year in the present period) because of the presence of areas of industrial decline. This was supplemented by similar amounts of funding from both national public and private sources, increasing overall structural expenditure in these areas to around EUR 7 billion a year. Spending was concentrated, in particular, on the reconversion of old industrial sites and business support services (together accounting for around half the total), while some 20% went on human resource development and 10% on support for R&D and ICT.

Evaluation studies suggest that overall, structural intervention in these areas led to the creation of some 700 thousand jobs over the period and just under 500 thousand in net terms, while around 300 thousand SMEs received assistance to improve their production methods and to seek out new markets. At the same time, some 115 million square metres of industrial waste land were cleaned up and reconverted, enabling new economic activities to be developed, including leisure and cultural ones. Partly as a result of these measures, unemployment declined by slightly more in these areas than in the rest of the EU, though GDP per head rose by a little less.

More detailed analysis indicates that support for R&D, innovation and technology transfer was particularly effective in creating new jobs or maintaining existing ones, though in general the innovative capacity of most Objective 2 areas remains less developed than in more successful regions. By contrast, endowment of infrastructure and human capital seems comparable to levels elsewhere.

Although the interventions have had positive effects, these might have been greater if both the areas eligible for support and the scale of operations funded had been bigger and if the time horizon for projects (three years) had been longer. These changes would enable programmes of more strategic importance for regional development to be supported.

Support for agriculture, rural development and fisheries

Interventions under Objective 5a during the 1994–1999 period were aimed at improving agricultural efficiency and helping to safeguard the countryside and seem to have been relatively effective in supporting restructuring of small farms in Objective 1 regions.

Interventions under Objective 5b amounted to around EUR 1.2 billion a year and were implemented in areas housing some 9% of the EU population. They seem to have led to some diversification of agricultural production and a growth of activities, such as agri-tourism and environmental services, while helping to renovate villages and develop public services.

In the present programming period, support for rural development has been integrated into a single overall strategy, though divided between two programmes, one subject to the Structural Fund regulations, the other to those of the EAGGF-Guarantee. The latter are designed for agricultural market policies and not well adapted to multi-annual action programmes.

The fishing sector is concentrated in a limited number of regions in peripheral parts of the EU, which have been hit by the measures taken to preserve fish stocks and where, accordingly, interventions under the Common Fisheries Programme can contribute significantly to the development of other economic activities

Promoting employment, education and training through the ESF

During the 1994–1999 period, the European Social Fund (ESF) provided support for the development of

human resources amounting to a third of overall Structural Fund interventions, around half going to Objective 1 regions.

Interventions under Objective 3 were aimed at integrating young people, the long-term unemployed, and those at risk of exclusion into employment and at promoting equal opportunities. Interventions under Objective 4 were focussed on helping workers adapt to industrial change. Evidence suggests that the most successful measures were those offering a combination of support, such as guidance, training and job search, tailored to individual needs.

In addition, the ESF provides finance for employment, education and training systems at both national and regional level. In Objective 1 regions, the ESF helped to increase levels of public investment in education and training. Although the European Employment Strategy (EES) was launched when the programming period was already underway, the ESF provided significant support, from 1997 on, for policies included in the National Action Plans for employment (NAPs), especially in the southern Member States

In the 2000–2006 period, the link between the ESF and the EES has been strengthened considerably. With a budget of around EUR 60 billion overall, the ESF has become the main Community financial instrument underpinning the EES, and the EES, in turn, provides a stronger policy framework for ESF interventions and employment creation.

Promoting cooperation and networking

Community Initiatives are designed to promote innovation, partnership and the development of collaborative ventures between countries and regions, addressing needs often unmet by the mainstream programmes implemented under the Structural Fund Objectives.

In the 1994–1999 period, INTERREG II supported three broad types of programme, cross-border cooperation (Strand A), energy networks (Strand B) and cooperation over regional and spatial planning (Strand C). Most funding went to Strand A programmes for improving the environment, supporting cultural activities, tourism and services for SMEs and assisting the development of transport links, especially cross-border routes. Significant improvements were made, in particular, to border crossings in Objective 1 regions in Greece, Germany and Finland. The main benefits, however, have come from increased contact and better understanding between public authorities and private and semi-public organisations on either side of the border.

During the period 2000–2006, INTERREG III — endowed with around EUR 5 billion — reinforced the cross-border component (Strand A), promoted strategic cooperation at trans-national level on spatial planning themes (Strand B), and favoured cooperation and exchange of experiences between regions (Strand C).

In the future, INTERREG will need to take account of the new context in which border areas represent a larger part of the EU in terms of both population and land area.

The URBAN Initiative covers the 44% of the EU population living in cities of over 50,000 people. In the 1994–1999 period, support amounted to just EUR 148 million a year and was divided between 118 cities. In the present period, this was reduced to EUR 104 million a year divided between projects in 70 cities. The main focus is on small urban neighbourhoods and on encouraging local involvement in schemes which directly affect people's lives. This has helped to raise the visibility of EU structural policy as a whole. It has also helped to attract private investment. On the other hand, the concentration of support on small areas leaves out of scope projects for tackling wider regional issues, such as the relationship between urban and neighbouring rural areas.

The EMPLOYMENT and ADAPT Initiatives supported around 9,300 projects in the 1994–1999 period, involving some 1,6 million people in programmes for

labour market integration and job creation at local level. Projects funded included measures for facilitating access to work and training, support for new sources of employment, help for SMEs to anticipate change and child care support for women to make it easier for them to pursue a working career.

In the 2000–2006 period, EQUAL is focussed on new innovative approaches to combating inequalities and discrimination on the labour market, giving strong emphasis to trans-national cooperation, partnership and the exchange of experience and good practice.

LEADER II provided support in rural areas to around 900 local action groups over the period 1994–1999 from a budget of EUR 300 million a year which was increased to EUR 700 million through co-financing. The main activity funded was tourism, though assistance was also given to SMEs and the development of local products.

With LEADER+ (2000–2006), which has the same annual budget as LEADER II, more emphasis has been put on the pilot nature of projects and cooperation has been made easier.

Pilot innovative actions

Nearly one in three regional authorities across the EU15 has formulated a Regional Innovation Strategy (RIS) or a Regional Information Society Initiative (RISI). The most visible effects of the two Initiatives have been public-private sector partnerships and support for SMEs to access new technologies.

A new system for innovative actions, with Structural Fund support of around EUR 400 million in total, was introduced in 2001 to encourage regions to develop programmes for increasing regional competitiveness through technology and innovation (the Lisbon strategy), applying new forms of ICT (the eEurope action plan) and promoting sustainable development (Gothenburg). So far three out of four regions in the Union have applied for funding for programmes relating to one of these three themes.

Improving the effectiveness of Structural Fund management

In the last review of the Structural Fund regulations in 1999, there was an attempt both to simplify the system and decentralise day-to-day management to Member States. Though Member States are increasingly responsible for how the Funds are spent, the Commission remains ultimately accountable to the budgetary authority for expenditure. The need before the new funding period is to review the regulations with a view to increasing the effectiveness of the system and further reducing its complexity.

The core principles

Programming, partnership, concentration and additionality have remained the central principles of the Structural Funds since the 1988 reform. Programming, in the sense of planning expenditure over a number of years to achieve strategic objectives, has resulted in greater certainty and more stability and coherence in the policy followed and the projects funded. While the programming period has lengthened as planning capabilities have increased and while objectives have become more quantified, concerns have grown over the complexity and time involved in approving programming documents and over the need to ensure that programmes are flexible enough to adapt to change.

Partnership in the design and implementation of programmes has become stronger and more inclusive, involving a range of private sector entities, including the social partners, as well as regional and local authorities. This has led to better targeted and more innovative projects, improved monitoring and evaluation of performance and the wider dissemination of information of their results, at the price, in some cases, of additional complexity of programme management.

Concentration, in the sense of focusing funds on the areas most in need, has increased over time, though evaluations suggest that resources are still sometimes spread too widely and thinly. In the present programming period, 41% of the EU15 population live in either Objective 1 or Objective 2 regions, though the complicated process of defining the latter led to some fragmentation of regions and excessive dispersion of resources.

Additionality has been largely respected in Objective 1 regions, in the sense that the Structural Funds have supplemented rather than replaced existing public expenditure. However, verifying that this has also been the case as regards Objective 2 and 3 programmes, especially the latter, has proved more difficult.

The search for greater effectiveness

Although expertise in managing the Funds has increased over time, improving the effectiveness of programmes remains a key challenge. The control procedures required are often regarded by Member States as unwarranted given the costs involved and as duplicating national systems. A particular criticism is that present requirements were decided so late that they have led to delays in programme implementation, creating pressure for funds to be spent quickly at the expense of quality. Costs of financial management seem especially high for Objective 2 programmes.

While the management of public funds has improved, it was still the case, in the last programming period, that only a third of Objective 1 projects evaluated were completed on time, while a third were over a year late. In addition, two-thirds of projects were over budget. The discipline imposed by the `n+2´ rule during the current period has contributed to improving significantly the use of structural monies. In 2003, the financial execution of the Structural Funds was close to 100%.

Monitoring is an essential part of the system, but evaluations suggest that it has not been as effective as expected, partly because of the difficulty of collecting meaningful information. Moreover, the focus on financial issues rather than strategic ones tends to lead to funds being spent where they are most easily absorbed instead of where they might be most effective. Although improvements have been made in the present period by identifying indicators and targets, the former are often not well defined and the latter too broad.

Evaluation has also improved over time, but still varies considerably between Member States in the way it is implemented. Evaluations are now required to be undertaken *ex ante* by Member States, at mid-term in cooperation with the Commission — in time for the results to affect decisions on the remainder of the programme — and *ex post* by the Commission, though only two years after the programme ends. More involvement of regions and Member States in the process might make it more useful and relevant.

To encourage better management, a financial incentive in the form of a performance reserve, with 4% of Structural Fund resources, has been introduced in the present period for allocation in 2004 on the basis of the achievement of programme targets specified initially.

Management systems have in many cases become more decentralised over time which, according to evaluations, has tended to increase their effectiveness by making them more responsive to regional needs.

The challenge of enlargement

The Structural Funds are of key importance to the new Member States in helping them strengthen their competitiveness. Over the period 2000–2006, the accession countries are receiving some EUR 3 billion a year from ISPA (for transport and environmental projects), SAPARD (for agriculture and rural development) and PHARE (for strengthening economic and social cohesion and administrative and institutional capacity). After the 10 new Member States enter the EU, they will continue, together with Bulgaria and Romania, to be eligible for PHARE assistance for three years (totalling EUR 1.6 billion a year).

Under ISPA, 324 projects had been approved by the end of 2003, divided fairly evenly between transport and the environment and, in the former, between road and rail. Under SAPARD, resources amounting to EUR 500 million a year go to support development plans for agriculture and rural areas formulated by the countries themselves.

The new Member States will be eligible for support from the Structural Funds over the period 2004 to 2006. Support, amounting to some EUR 21.8 billion in total over the three years, will be concentrated on a limited number of priority areas to maximise impact and minimise problems of programme implementation. The priority areas selected by the countries differ markedly in terms of the relative importance attached to spending on infrastructure, human resources and productive investment, in part reflecting differences in the prevailing state of the capital stock in these respective areas.

The need to develop a strategic approach and to focus on a limited number of priorities, highlighted during the negotiations, is to be maintained in the implementation phase. In addition, special attention will need to be given to ensuring the maximum coherence between the Structural Funds and national policies, to environmental considerations and to equal opportunities. At the same time, the issue of administrative capacity remains a concern, despite the progress made at both national government and regional level, though experience of actually implementing programmes will help strengthen capacity.

From this and other perspectives, the 2004–2006 period can be regarded as a transitional one, allowing the new Member States concerned to prepare the ground for the next, and much longer, programming period.

The challenge ahead for structural policy in the new Member States is:

- to identify the structural deficiencies in each region which have the most damaging effect on competitiveness and growth potential and to give priority to tackling these first;

- to formulate a long-term development strategy for each region in line with its comparative strengths and weaknesses, which recognises that all needs cannot be tackled simultaneously and which orders investment projects in the light of the interaction between them and the growth path it is intended to follow over the long-run;

- to give due weight to environmental considerations in investment decisions in order to ensure that the growth path chosen is sustainable;

- to avoid excessive concentration of investment in the present growth centres where the impact on economic activity might be greatest in the short-term but which may be at the expense of balanced development over the long-run;

- to help strengthen the administrative capacity for designing, implementing and managing development programmes at regional level.

1 See, for example, T. Padoa-Schioppa, Efficiency, stability and equity — A strategy for the evolution of the economic system of the European Community, Oxford University Press 1987, which emphasises that ''there are serious risks of aggravated regional imbalance in the course of market liberalisation ... (and) adequate accompanying measures are required to speed adjustment in structurally weak regions and countries ... reforms and development of Community structural funds are needed for this purpose" (pp. 5-6).

2 On this and previous points, see Agenda for a growing Europe, report of an independent high-level study group, chaired by André Sapir, July 2003.

Conclusions: a proposal for a reformed cohesion policy

The Commission adopted a proposal on 10 February 2004 for the budget of the enlarged European Union[1] of 27 Member States for the period 2007–2013.

This was an important decision, the Commission taking the view that Union's intervention in a number of key policy fields required strengthening. In particular, the Commission decided that an ambitious cohesion policy should be an essential element of the total package. Importantly, in the new budgetary structure, the Commission maintains the view that cohesion policy should be allocated a single, and transparent, budgetary heading which is essential in order to provide the certainty and the stability necessary for the planning of the next generation of national and regional multiannual programmes.

The decision reflected the work that has been undertaken since the publication of the Second Cohesion Report in 2001 which launched the debate on the future of cohesion policy in the enlarged Union for the period beginning in 2007. The conclusions of the Third Cohesion Report that follow present a detailed proposal for the priorities and delivery system for the new generation programmes under cohesion policy in conformity with the broad guidelines set out in the financial perspective. Following the introductory remarks, Part I sets out the new priorities for cohesion policy. Part II describes the main elements of a new delivery system. Part III sets out the resource implications.

It is worth recalling that cohesion policy — one of the pillars of the European construction together with the single market and monetary union — is the only policy of the European Union that explicitly addresses economic and social inequalities. It is thus a very specific policy involving a transfer of resources between Member States via the budget of the European Union for the purpose of supporting economic growth and sustainable development through investment in people and in physical capital.

This also means that the concept of cohesion that has applied at the European level has not been a passive one that redistributes income but a dynamic policy that seeks to create resources by targeting the factors of economic competitiveness and employment, especially where unused potential is high.

Four challenges for the future

More cohesion needed in an enlarged Union

The enlargement of the Union to 25 Member States, and subsequently to 27 or more, will present an unprecedented challenge for the competitiveness and internal cohesion of the Union. As illustrated in this report, enlargement will lead to the widening of the economic development gap, a geographical shift in the problem of disparities towards the east and a more difficult employment situation: socio-economic disparities will double and the average GDP of the Union will decrease by 12.5%.

At the same time, the whole of the Union faces challenges arising from a likely acceleration in economic restructuring as a result of globalisation, trade

opening, the technological revolution, the development of the knowledge economy and society, an ageing population and a growth in immigration.

Demographic ageing in Europe is a particular challenge. The regional variations in this respect are considerable reflecting trends in fertility and mortality, and in migration. Addressing the problems is not simply a question of coping with a rise in the dependent population. It also requires ensuring that national and regional development strategies are adapted to demographic circumstances and are able, in particular, to promote active ageing policies and to exploit the often underused potential of the older population.

Finally, economic growth in the EU has slowed appreciably over the three years since the publication of the last Cohesion Report. As a result, unemployment has risen again in many parts of the Union with all the social implications which this entails. As a springboard to the future, the Union should fully exploit the opportunities provided by the current trend towards recovery.

Reinforcing the priorities of the Union

In an effort to improve the performance of the EU economy, the Heads of State and of Government of the Union meeting in Lisbon in March 2000 set out a strategy designed to make Europe the most successful and competitive knowledge based economy in the world by 2010. The Nice Council in December 2000 translated the Lisbon objectives on poverty reduction into a coordinated EU strategy for social inclusion. At the Gothenburg Council in June 2001, the Lisbon strategy was widened adding a new emphasis on protecting the environment and achieving a more sustainable pattern of development.

Cohesion policy makes an important contribution to realising these aims. In effect, growth and cohesion are mutually supportive. By reducing disparities, the Union helps to ensure that all regions and social groups can contribute to, and benefit from, the overall economic development of the Union. Articles 3 and 158 of the Treaty reflect this vision, which has been reinforced in the draft Constitution by the introduction of a clearer reference to the territorial dimension of cohesion.

Cohesion policy is also necessary in a situation where other Community policies have important benefits combined with limited but localised costs. Cohesion policy helps to spread the benefits. By anticipating change and facilitating adaptation, cohesion policy can help to limit the negative impacts.

For this reason, cohesion policy in all its dimensions must be seen as an integral part of the Lisbon strategy, even if today, as the Commission pointed out in the financial perspective, the policy design underlying Lisbon needs to be completed and updated. In other words, cohesion policy needs to incorporate the Lisbon and Gothenburg objectives and to become a key vehicle for their realisation via the national and regional development programmes.

Increasing quality to promote more balanced and sustainable development

This report shows that disparities in output, productivity and access to jobs which persist between countries and regions stem from structural deficiencies in key factors of competitiveness — inadequate endowment of physical and human capital, a lack of innovative capacity and regional governance, and a low level of environmental capital.

The cost of not pursuing a vigorous cohesion policy to promote growth and tackle disparities is therefore measured not only in terms of a loss of individual and collective well-being but also in economic terms, in a loss of potential real income and higher living standards. Given the interdependencies inherent in an integrated economy, these losses are not confined to the less competitive regions or to individuals who are not working or who are in unproductive jobs but affect everyone in the Union.

Strengthening regional competitiveness through well-targeted investment throughout the Union and providing economic opportunities which help people

fulfil their capabilities will thus underpin the growth potential of the EU economy as a whole to the common benefit of all. By securing a more balanced spread of economic activity across the Union, regional policy helps to reduce the pressures of over-concentration, congestion and bottlenecks.

A new partnership for cohesion

The reform of cohesion policy should also provide an opportunity to bring greater efficiency, transparency and political accountability. This requires, first and foremost, the definition of a strategic approach for the policy spelling out its priorities, ensuring coordination with the system of economic and social governance and allowing for a regular, open review of progress made.

The corollary of the above is the need to reinforce institutional capacities at all levels of government throughout the Union, building on one of the key strengths of cohesion policy.

A new architecture for EU cohesion policy after 2006

More targeted interventions

In the public debate on the future of cohesion policy referred to above, a general conclusion was that there are a number of matters which are important for cohesion in the Union as a whole. (…"*the issues of competitiveness, sustainable development, and economic and social restructuring are relevant in all Member States*"[2]). These elements are key to understanding the proposal below on future priorities.

In effect, the Commission proposes that actions supported by cohesion policy should focus on investment in a limited number of Community priorities, reflecting the Lisbon and Gothenburg agendas, where Community intervention can be expected to bring about a leverage effect and significant added value. Accordingly, for the regional programmes, the Commission proposes a core list consisting of a limited number of key themes as follows: **innovation and the knowledge economy, environment and risk prevention, accessibility and services of general economic interest.** For employment related programmes, the focus will be on implementing the reforms needed to progress towards full employment, improve quality and productivity at work, and promote social inclusion and cohesion, in line with the guidelines and recommendations under the **European Employment Strategy**.

These priority themes would be valid for the Union in general, but they would need to be completed and expanded to take account of the specific needs of the less developed regions and Member States, where additional needs persist, for example, in relation to the provision of infrastructure and to institutional capacity building. These aspects are dealt with below (see also first Box at the end of this section for details).

Three Community priorities

The pursuit of the priority themes would be organised around a simplified and more transparent framework with the future generation of programmes grouped under three headings: *convergence, regional competitiveness and employment; territorial cooperation*.

Convergence: supporting growth and job creation in the least developed Member States and regions

The convergence programmes concern the less developed Member States and regions which in accordance with the Treaty are the top priority for Community cohesion policy. The Treaty calls for a reduction in disparities between "*the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas*" (Article 158). Enlargement will bring about an unprecedented increase in the disparities within the Union, the reduction of which will require long-term, sustained efforts.

This objective would concern, first and foremost, those regions[3], in which per capita GDP is less than 75% of the Community average[4].

The key objective of cohesion policy in this context would be to promote growth-enhancing conditions and factors leading to real convergence. Strategies should plan for the development of long-term competitiveness and employment.

The Commission proposes that temporary support should apply under this heading to those regions where per capita GDP would have been below 75% of the Community average as calculated for the Union of Fifteen (the so-called statistical effect of enlargement). These are regions where objective circumstances have not changed, although their GDP per head will be relatively higher in the enlarged Union. In the interest of equity, and to allow the regions concerned to complete the process of convergence, support would be higher than decided in Berlin in 1999 for the so-called "phasing out" regions of the current generation.

It should be noted that in making this proposal, the Commission is opting for the more rigorous among the four options presented in the Second Cohesion Report, in the interest of concentration and a more effective cohesion policy overall. It should be understood that this support would end in 2013 and would not be followed by a further phasing out period.

Programmes would be supported by the financial resources of the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund[5], in accordance with the principles set out in the Treaty.

For illustration, the **ERDF** would provide support for:

- modernising and diversifying the economic structure of Member States and regions, with particular attention to innovation and enterprise, notably by creating closer links between research institutes and industry, favouring access to and use of information and communication technologies (ICTs), developing conditions favourable to R&D, improving access to finance and know-how and encouraging new business ventures;

- extending and upgrading basic infrastructures such as transport, telecommunications and energy networks, water supplies and environmental facilities;

- protecting the environment, notably by helping Member States to achieve full compliance with the body of EU law, supporting the development of eco-industries, rehabilitating derelict industrial sites, supporting measures to prevent natural and technological risks, investment in infrastructure linked to Natura 2000, contributing to sustainable economic development, favouring cleaner methods of transport and the development and use of renewable energy;

- Reinforcing the institutional capacity of national and regional administrations in managing the Structural Funds and the Cohesion Fund.

The **ESF** would strengthen its role as the main Community financial instrument supporting of the European Employment Strategy (EES). It would provide support for:

- improving the quality and responsiveness of labour market institutions, education and training systems, and social and care services;

- increasing investment in human capital, raising educational levels, adapting the skills of citizens and ensuring access for all to the labour market;

- promoting the adaptation of public administration to change through administrative and capacity building.

The new generation of employment-related programmes should also seek to take on board the lessons of the current EQUAL initiative across the EU

(covering innovation, empowerment, partnership and trans-national cooperation in employment matters).

The **Cohesion Fund** will apply to Member States with GNI lying below 90% of the Community average[6]. As for the current period, the Commission proposes to maintain the mid-term assessment of eligibility for the Cohesion Fund.

In line with the priorities set by the financial perspective, the Cohesion Fund should strengthen its contribution to sustainable development. In this respect, trans-European transport networks, in particular, the projects of European interest, and environmental infrastructure would remain the central priorities. In order to reach an appropriate balance to reflect the particular needs of the new Member States, it is envisaged also to support projects such as rail, maritime, inland waterways, and multimodal transport programmes outside the TEN-T, sustainable urban transport and environmentally important investment in the key fields of energy efficiency and renewable energies.

Regional competitiveness and employment: anticipating and promoting change

While interventions in the less developed Member States and regions remain the priority of cohesion policy, the analysis of the Third report confirms that there are, to different degrees, important challenges that concern all EU Member States.

In particular, Member States, regions and citizens will have to adapt to a world experiencing rapid economic and social change and restructuring, trade globalisation and a move towards a knowledge-based economy and society. They will also have to tackle the particular challenges that derive from an ageing population, growing immigration, labour shortages in key sectors and social inclusion problems.

In this context, the Union must have an important role to play. First, the implementation of the Lisbon agenda has been disappointing. In these circumstances, Community financial support can act as a catalyst, helping to mobilise national and regional policies and resources and to target them more resolutely on the Union's objectives.

Second, the visible presence of cohesion interventions throughout the EU is an essential element for the political, economic and social integration of the Union and for promoting involvement of public and private stakeholders and gaining their commitment to achieving the Union's objectives.

For cohesion policy outside the least developed Member States and regions, the Commission proposes a two-fold approach:

1) First, through *regional* programmes, cohesion policy would help regions and the regional authorities to anticipate and promote economic change in industrial, urban and rural areas by strengthening their competitiveness and attractiveness, taking into account existing economic, social and territorial disparities;

2) Second, through *national* programmes, cohesion policy would help people to anticipate and to adapt to economic change, in line with the policy priorities of the EES, by supporting policies aimed at full employment, quality and productivity at work, and social inclusion.

Anticipating and promoting regional change

The regional programmes will help to address the problems faced by urban and rural areas relating to economic restructuring and other handicaps. This report describes the difficulties facing many areas, for example, those dependent on traditional industries, or urban areas in decline, or, again, rural areas often confronted with a highly dispersed or ageing population and poor accessibility.

Under the new programmes, the Commission proposes a stricter concentration of interventions on the three priority themes referred to above (see Box).

The single funding source for the new programmes would be the ERDF. From a resource allocation point of view, two groups of regions need to be distinguished:

- the regions[7] of the Union covered neither by the convergence programmes nor by the "phasing in" support described below;

- the regions currently eligible for Objective 1 not fulfilling the criteria for the convergence programmes even in the absence of the statistical effect of enlargement. Such regions would benefit from a higher level of support (under the heading "phasing in") on a transitional basis (the reduction would follow a path comparable to that for regions no longer eligible for Objective 1 in the period 2000–06).

Helping people to anticipate and respond to change

Actions in this sphere would be delivered through national programmes with the aim of reinforcing the introduction and implementation of structural reforms in the labour market and strengthening social inclusion, in line with the objectives and guidelines of the EES.

To this end, support should focus on three policy priorities that are crucial for the implementation of the EES and where Community funding can provide added value:

- increasing the adaptability of workers and enterprises, by investing in skills and in-company training and by supporting the development of efficient life-long learning strategies;

- attracting more people into employment and preventing early exit from the labour market, in particular through active ageing policies and measures to support the participation of women;

- increasing the employment potential of people who face greater difficulties in accessing the labour market and retaining their job, such as people with disabilities, ethnic minorities and migrants.

The single funding source for the new programmes would be the ESF.

European territorial cooperation: promoting the harmonious and balanced development of the Union territory

In the Second Progress Report on economic cohesion[8] the Commission pointed to "*the high level of value added by the Union to measures concerning co-operation, the exchange of experiences and good practices and the role played by the Community Initiative programmes was widely acknowledged. Strengthening the instruments for transnational, cross-border and interregional co-operation and assistance on the external frontiers of the Union were the aspects most often mentioned*".

Building on the experience of the present INTERREG Initiative, the Commission proposes to create a new objective dedicated to furthering the harmonious and balanced integration of the territory of the Union by supporting cooperation between its different components on issues of Community importance at cross-border, trans-national and interregional level.

Action would be financed by the ERDF and would focus on integrated programmes managed by a single authority in pursuit of key Community priorities linked to the Lisbon and Gothenburg agendas.

In principle, all regions (defined at NUTS 3 levels) along the external and internal borders, terrestrial as well as maritime[9], would be concerned by *cross-border cooperation*. The aim would be to promote joint solutions to common problems between neighbouring authorities, such as urban, rural and coastal development and development of economic relations and networking of SMEs.

In this context, the Commission intends to propose **a new legal instrument** in the form of a European cooperation structure ("Cross-border regional authority"), in order to allow Member States, regions and local authorities to address — both inside and outside Community programmes — the traditional legal and administrative problems encountered in the management of cross-border programmes and projects. The aim would be to transfer to this new legal structure the capacity to carry out cooperation activities on behalf of public authorities.

In order to allow more effective actions on the external borders of the enlarged Union, the Commission will propose a New Neighbourhood Instrument (NNI) in the context of the European Neighbourhood Strategy. The NNI would operate on both sides of the external border, including, where appropriate, maritime borders. The NNI will promote, *inter alia*, sustainable economic and social development and build on past experience of cross-border cooperation, in particular partnership, multi-annual programming and co-financing.

So far as the broader actions to promote *transnational cooperation* are concerned, the lessons should be drawn from current experience. In particular, Member States and regions would be invited to assess the usefulness and effectiveness of the existing 13 transnational cooperation zones (defined under INTERREG IIIB) in the light of enlargement. The objective would be to decide, together with the Commission, on a number of zones for transnational cooperation which are sufficiently coherent and where there are common interests and opportunities to be developed. It is envisaged that such cooperation would focus on strategic priorities with a trans-national character such as R&D, information society, environment, risk prevention and integrated water management.

Finally, the Commission proposes that regions should in future incorporate actions in the field of *interregional cooperation* within their regional programmes. To achieve this, regional programmes would need to dedicate a certain amount of resources to exchanges, cooperation and networking with regions in other Member States. In addition, the Commission would seek to facilitate exchange of experience and good practice on a European scale by organising networks involving regions and cities.

An integrated response to specific territorial characteristics

One of the key characteristics of an effective cohesion policy lies in its adaptability to specific needs and characteristics of territories.

This report shows that particular geographical or natural handicaps may intensify development problems, particularly in the outermost regions of the Union, in many islands, in mountain areas and in sparsely populated parts in the far north.

The report also identifies the role cities throughout the Union play as centres of economic development, although they are also faced by problems linked to environmental pressure, social exclusion and economic restructuring. It also emerges from the analysis that rural areas continue to be faced by large-scale changes. Their revitalisation depends on the diversification of economic activity and the strengthening of their links with urban areas.

While recognising the different circumstances and challenges, the Commission considers that the next generation of programmes should be defined in such a way that the different territorial problems (and opportunities) can be addressed without multiplying the number of programmes or the number of instruments. Any given individual programme should therefore provide the framework for different situations to be dealt with and for integrated and holistic solutions to problems to be addressed.

Integrating urban deprivation and regeneration into regional programmes: URBAN+

The foregoing is relevant to urban policy. Building on the strengths of the URBAN initiative, the

Commission intends to reinforce the place of urban issues by fully integrating actions in this field into the programmes.

To carry this out, at the beginning of the next programming period, each Member State would propose a list of urban areas which would benefit from a specific action within the programmes. The extent of the problems facing the cities and their role in promoting regional development would suggest that the number of cities concerned should be greater than the 70 today covered by the URBAN initiative in the EU15.

Critical to the success of urban actions is the involvement of the city authorities both in the design of programmes and in the management. It is therefore envisaged that an arrangement involving a sub-delegation of responsibilities to these authorities would be necessary within the regional programmes. The scale of interventions organised in this way would be decided when the programmes are drawn up, but it is worth noting that today more than 10% of the total EU contribution to Objectives 1 and 2 is devoted directly or indirectly to financing urban-related measures.

As indicated above, cooperation between cities — an important element of the added value of European action — would be included under the heading of territorial cooperation.

Outermost regions

The Commission intends, within the convergence objective, to set up a specific programme to compensate for the specific constraints of the outermost regions, as recognised by article 299.2 of the Treaty and requested by the European Council of 21–22 June 2002 in Seville. In addition, an action, “Grand Voisinage”, aimed at facilitating cooperation with the neighbouring countries, would be included under the new “European territorial cooperation” programmes. In accordance with the request of the Council, the Commission will shortly present a report on an overall strategy for the outermost regions.

Addressing persistent problems of development in regions with geographical handicaps

Problems of accessibility and remoteness from large markets are particularly acute in many islands, some mountain areas and in sparsely-populated regions, particularly in the far north of the Union.

The allocation of resources for the regional competitiveness and employment priority should take account of this by using “territorial” criteria, reflecting the relative disadvantage of regions with geographical handicaps. Member States should ensure that the specific features of these regions are taken into account when it comes to the targeting of resources within regional programmes.

In an effort to promote more action in these sometimes neglected areas and to take account of the higher cost of public investment in per capita terms, for the next period it is proposed that territories with permanent geographical handicaps should benefit from an increase in the maximum Community contribution.

A better organisation of the instruments operating in rural areas and in favour of the restructuring of the fisheries sector

In the communication financial perspective, the Commission proposes to simplify and to clarify the role of the different instruments in support of rural development and the fisheries sector.

The current instruments linked to rural development policy would be grouped in one single instrument under the Common Agricultural Policy designed to:

- increase the competitiveness of the agricultural sector through support for restructuring (for instance, investment aids for young farmers, information and promotion measures);

- enhance the environment and countryside through support for land management, including co-financing of rural development actions related

to Natura 2000 nature protection sites (for instance agri-environment, forestry, and `Least Favoured Areas´ measures);

- enhance the quality of life in rural areas and promote diversification of economic activities through measures targeting the farming sector and other rural actors (for instance, qualitative reorientation of production, food quality, village restoration).

The present Community Initiative, LEADER+, would be integrated into mainstream programming.

Similarly, action in favour of the restructuring of the fisheries sector would be grouped under a single instrument, which would focus on actions to accompany the restructuring needs of the fisheries sector and to improve working and living conditions in areas where the fisheries sector, including aquaculture, plays an important role.

An important part of these proposals is that the financial resources transferred from cohesion policy to these new instruments would continue to be deployed in such a way that the same degree of concentration is achieved as today on helping the less developed regions and countries covered by the convergence programmes.

Outside these interventions, cohesion policy would support the diversification of the rural economy and of the areas dependent on fisheries away from traditional activities, in conformity with the priority themes listed in the Box.

Coordination and complementarity with other Community policies

Cohesion policy provides an essential complement to other Community-wide expenditure in the field of innovation (R&D, enterprise, information society and environmentally clean technologies), networks (transport, energy, communication) and education and culture. In effect, cohesion policy helps to ensure that the necessary physical and institutional capacities are created in the Member States and regions across the whole of the Community enabling them to benefit from these other policies. The management of the latter policies, on the one hand, and cohesion policy, on the other, could be improved in future through more ongoing dialogue and exchange of information and better coordination of activities.

The question of complementarity concerns a number of policy fields. Particular attention would be given to ensuring the integration of actions in favour of equal opportunities between men and women into national and regional programmes.

Likewise, the implementation of cohesion policy should help to promote compliance with internal market rules, especially as regards public procurement legislation. A rapid and effective implementation of the new legislative package for public procurement in the Member States would contribute to the simplification of procedures and, therefore, to the efficiency of cohesion policy.

At another level, consistency with the Broad Economic Policy Guidelines and the European Employment Strategy would help to increase the effectiveness of cohesion policy.

A key question is that of the consistency between cohesion and competition policies. The regions with GDP per capita below 75% of the average should remain eligible for the state aid regime as defined in accordance with Article 87.3(a) of the Treaty. For the regions affected by the “statistical effect”, these would be subject to a limit on state aid similar to that foreseen under Article 87.3(a) at the beginning of the period. These regions would be assimilated to the state aid regime as defined in Article 87.3(c) but subject to the relevant limits on aid intensity granted under Article 87.3(c) by the end of 2013 at the latest.

The outermost regions as defined under Article 299 of the Treaty that would not be covered by the new convergence objective would also benefit from a specific transitional state aid regime setting limits on aid that

would be comparable, initially, to those defined under Article 87.3(a), followed by a gradual reduction.

For other regional programmes, the Commission is proposing to abandon the current system whereby it draws up detailed lists of eligible areas at sub-regional level (see below). Consistency would be ensured at the level of the priorities to be financed rather than at the level of the geographical areas where the actions supported take place. This means that outside the convergence objective, the different fields of intervention will have to be pursued in a manner consistent with the applicable state aid rules. At the same time, the Commission intends to keep the relevant state aid rules under review taking into account these priorities.

The Commission intends to simplify the rules as regards other state aid matters not explicitly covered by existing frameworks, guidelines or regulations. This concerns cases involving the granting of limited amounts of state aid. The principle would be one of applying a so-called "significant impact test". The result would be to provide greater legal security and more flexibility, well above what is currently possible under the *de minimis* rule, for both Member States and regions in addressing local development and employment issues.

A reformed delivery system

The way that policies are implemented has a decisive effect on their effectiveness. The delivery mechanism for cohesion policy has demonstrated its capacity to deliver quality projects of European interest on the ground while maintaining high standards in the management and control of public expenditure, because:

- it allows interventions to be planned within a stable, medium-term (multi-annual) framework necessary for the realisation of major investment;

- through its integrated strategies for development, it combines within a single coherent framework, targeted investment in equipment, infrastructure, innovation and human resources taking into account the specific circumstances of the regions;

- it promotes good governance through closer public-private partnership;

- as a result of co-financing arrangements, it levers in additional expenditure from national public and private sources;

- it encourages more precision in public expenditure so that it is more cost-efficient while at the same time being compatible with the single market.

However, this report underlines the need to tackle certain difficulties encountered in the implementation of current programmes. Though the key principles of cohesion policy — programming, partnership, co-financing and evaluation — should be maintained, the efficiency of the policy in an enlarged Union could be enhanced by introducing a number of reforms designed, first, to encourage a more strategic approach to programming; secondly, to introduce further decentralisation of responsibilities to partnerships on the ground in the Member States, regions and local authorities; thirdly, to reinforce the performance and quality of programmes co-financed through a reinforced, more transparent partnership and clear and more rigorous monitoring mechanisms,;and fourthly, to simplify the management system by introducing more transparency, differentiation and proportionality while ensuring sound financial management.

It should be noted that the limits of decentralisation resulting from simplification are set by the fact that the Commission is accountable to the budgetary authority and to public opinion on the sound financial management and on the results of the activities co-financed. The reform of the delivery system in all its aspects, as presented below, would be undertaken in full respect of the Treaty and of the basic principles of the new financial regulation (article 155)[10].

The body of law for the new cohesion policy would be presented and adopted at the same time to ensure greater coherence and efficiency from the beginning of the programming period.

More strategic orientation on the priorities of the Union

The Commission proposes that an overall strategic document for cohesion policy should be adopted by the Council, after an opinion of the Parliament, in advance of the new programming period and on the basis of a Commission proposal, defining clear priorities for Member States and regions.

This strategic approach would guide the policy in its implementation and make it more politically accountable. It would help to specify more tightly the desired level of synergy to be achieved between cohesion policy and the Lisbon and Gothenburg agendas and would increase the consistency with the Broad Economic Policy Guidelines and the European Employment Strategy.

Each year, the European Institutions would examine progress on the strategic priorities and results achieved on the basis of a report by the Commission summarising Member State' progress reports.

To support this work, evaluation tasks need to be redefined with a view to become more strategic and result-oriented.

Simplification based on more subsidiarity

Already during the current period, the Commission has embarked on an exhaustive examination of ways to streamline the management of cohesion policy. For the next period, the Commission proposes to simplify further the system in a number of key aspects.

Programming

The programming system would be simplified as follows:

- at the *political level*: on the basis of the strategic document adopted by the Council, each Member State would prepare a policy document on its development strategy, which would be negotiated with the Commission and constitute the framework for preparing the thematic and regional programmes, but not having the role — as the existing Community Support Framework — of a management instrument;

- at the *operational level*: on the basis of the policy document, the Commission would adopt national and regional programmes for each Member State. The programmes would be defined at an aggregate or high priority level only, highlighting the most important measures. Additional detail, reflected today in the so-called "programme complement" would be abandoned as well as management by measure.

Coordination and coherence between the Funds would be guaranteed at both political and operational level.

The number of funds would be limited to three (ERDF, ESF and Cohesion Fund) compared to the current six (see Box at the end of this section).

As opposed to current multi-Fund programmes, future ERDF and ESF interventions would aim at operating with only one Fund per programme. In this respect, the action of each Fund would be made more coherent by allowing the ERDF and the ESF to finance residual activities related, respectively, to human and physical capital. Funding of these activities would be limited and directly linked to the main domains of interventions of each Fund. This would allow both for a simplification and increased effectiveness of programming.

The Cohesion Fund and the ERDF would follow a single programming system, where transport and environment infrastructures are concerned. Large projects would be adopted by the Commission separately, but managed within the related programmes.

Financial management, co-financing

Payments would be made at the level of each high-level priority and no longer, as today, at the lower level of the "measure". The system of payments (advances and reimbursement) as well as the essential principle of automatic de-commitment (the `n+2´ rule) would be maintained.

National rules would largely determine eligibility of expenditure, with the exception of a limited number of fields such as VAT, technical assistance and passive interests[11], where Community rules would continue to apply.

Financial control

The principle of proportionality would apply to the operation of control systems, the level of intervention by the Commission depending on the level of Community co-financing and the adequacy of the national or regional control systems. Below certain thresholds, the Member State would have the option of using its national control systems for the programmes concerned, and the Commission would rely principally on a declaration of assurance by an independent national control body. The Commission would continue to apply closure of account procedures and financial correction mechanisms, which enable it to assume its responsibility for the implementation of the budget.

Proportionality and further simplification of financial management and control should go hand-in-hand with stricter sanctions and prompt recovery in case of irregularities or fraud.

Additionality

Additionality — that EU resources should add to rather than replace national resources — would remain a key principle of cohesion policy. However, in line with the principle of proportionality, the Commission would verify its application only within the "convergence" objective. Member States would be responsible for ensuring that the principle of additionality applies within the "Regional competitiveness and employment" and "European territorial cooperation" programmes.

Partnership and coordination

Partnership would be enhanced by reinforcing the complementarity and cooperation between Member States, regions and local authorities both at the programming and implementation levels. In this respect, according to its institutional arrangements, each Member State should seek to organise the coordination between the different levels of government through tripartite agreements.

To promote better governance, the social partners and representatives from civil society should become increasingly involved through appropriate mechanisms in the design, implementation and follow-up of the interventions.

In order to increase the leverage effect, more emphasis is needed on modern forms of financing. One direction of reform would be to reinforce the partnership with the European Investment Bank and the European Investment Fund, for example, by establishing a stronger link between co-financing rates and the economic viability of programmes and projects.

These proposed changes should bring greater transparency to the operation of the policy, facilitating the access of citizens and companies thus increasing the number of projects coming forward and helping to make a contribution to greater value-for-money through increased competition for support.

More concentration

The major concentration of resources should remain on the less prosperous Member States and regions with an emphasis on the new Member States. At the level of the individual development programmes, concentration would be achieved by focusing on the Lisbon and Gothenburg priorities as well as, in the "convergence" regions, on institutional capacity building.

With regard to the regional competitiveness programmes, the current emphasis (under Objective 2) on the zoning of eligible areas at the level of communes, municipalities and wards has meant that concentration has been understood almost exclusively in micro-geographical terms. While the geographical concentration of resources in the worst affected pockets or areas must remain an essential part of the effort in the future, it must also be recognised that the prospects of such areas are intimately linked to the success of the region as whole.

As many regions have recognised, this requires the development of a coherent strategy for the whole region as a way of addressing the needs of its weakest parts. For the future, it is therefore proposed to abandon the current system of micro-zoning, allowing the appropriate balance between the geographical and other forms of concentration to be determined in the drawing up of the regional competitiveness programmes in partnership with the Commission.

This should not imply any dilution of the level of effort in deploying EU financial resources. Under the "regional competitiveness" strand, concentration would take place at a two levels:

- Thematic concentration would be stronger outside the "convergence" regions, in the sense that programmes would address a maximum of three themes (see Box).

- A second level of concentration will be assured via rules on the minimum financial volume of programmes and priorities.

In the context of the partnership, regions would have the responsibility in the first instance for concentrating financial resources on the themes necessary to address the economic, social and territorial disparities at regional level. The Commission would verify and confirm consistency at the moment of deciding the programmes.

Finally, through the principle of de-commitment of unused funds (the `n+2´ rule), a discipline unique to regional and cohesion policy, there would remain a strong incentive in favour of the efficient and rapid realisation of the programmes.

A stronger accent on performance and quality

Effectiveness calls for a greater focus on impact and performance, and for a better definition of the results to be achieved. Overall, the efficiency of cohesion policy would be improved by the establishment of an annual dialogue (see above) with the European Institutions to discuss — on the basis of the Commission's yearly report accompanied by Commission recommendations — the progress and results of national and regional programmes, so to enhance transparency and accountability towards the institutions and the citizens.

Evaluation before, during (on-going) and after the end of the programmes would remain essential to the overall effort to maintain quality. In the assessment of regional strengths and weaknesses at the beginning of each programme, there is a need *inter alia* for an additional effort to anticipate within each Member State and region the adjustments likely to occur from trade opening and globalisation. In addition, it is recommended that trade impact assessments should in future include systematically a territorial dimension for the EU.

In addition, the Commission proposes to set up a Community performance reserve whose main objective would be to reward the Member States and regions which show the most significant progress towards the agreed objectives. The rules for the allocation of the reserve would be improved and simplified taking into account the experience with the performance reserve for the current programming period.

In this context, a stronger complementarity and partnership between the Structural Funds, the EIB and EIF could be established.

Finally, the Commission proposes that Member State create within their national allocation a small reserve enabling them to respond swiftly to unexpected sectoral or local shocks resulting from industrial restructuring or the effects of trade agreements. This reserve would be used for providing ancillary support to the re-training of the most affected workers and to the diversification of the economy in the areas concerned, acting as a complement to the national and regional programmes which should constitute the principal instrument for restructuring in anticipation of economic change. The mobilisation of the reserve would be discussed and agreed with the Commission.

It is important to recall here that the new financial perspective propose the creation of a specific instrument (Growth Adjustment Fund) to complement growth and cohesion objectives in the light of the objectives of the Union and to react to crises stemming from international economic and trade developments. The Commission proposes to add to this instrument by using the committed, but unused, funds from the ERDF and ESF up to a maximum of EUR 1 billion per year.

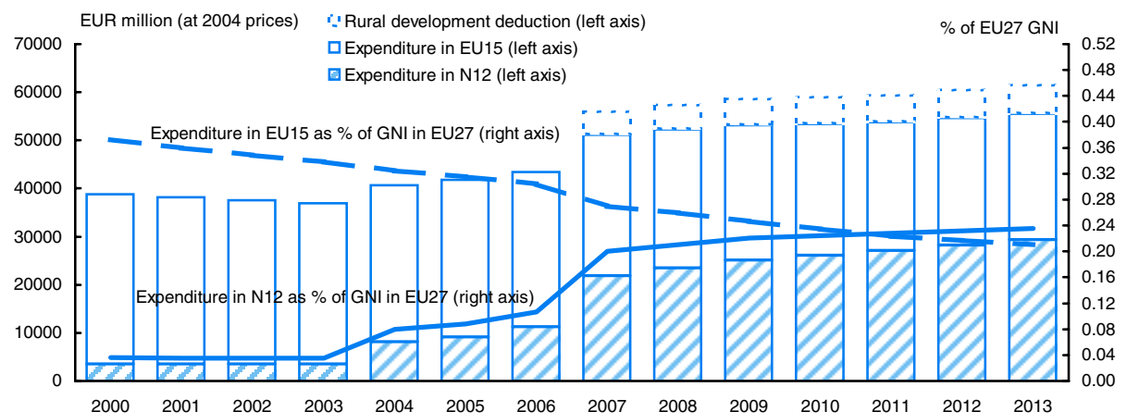
Financial resources

The financial resources dedicated to cohesion policy should reflect the ambition of an enlarged Union to promote growth and job creation in its less favoured areas. For the period 2007–2013, the Commission has proposed in the financial perspectives to allocate a sum equivalent to 0.41% of the GNI of the EU27 (which equates to 0.46% before the transfers to the proposed single rural and fisheries instruments) in support of the three priorities of the reformed cohesion policy. This percentage corresponds to EUR 336.3 billion over the period (or EUR 344.9 billion taking into account the administrative expenditures and the Solidarity Fund). With the exception of the Solidarity Fund, these resources would remain, as today, an expenditure target, while remaining subject to the rules related to de-commitment (`n+2´).

The indicative division of this amount among the three priorities of the reformed policy would be as follows:

1) Around 78% for the “convergence” priority (less developed regions, Cohesion Fund, and “statistical effect” regions), with the emphasis on help to the 12 new Member States. The absorption limit (“capping”) for financial transfers to any given Member State under cohesion policy would be maintained at its current 4% of national GDP, taking into account amounts included under the rural development and fisheries instruments.

I Expenditure on cohesion policy, 2000-2013



Source: DG REGIO

The relative importance of the Cohesion Fund would be enhanced to represent a third of the financial allocation for the new Member States concerned. This is in order to consolidate the effort begun in 2004–2006 in the light of significant needs of these countries in terms of transport and environment infrastructure. The allocation between countries would take account of the needs of each Member State and upper and lower limits would be established, as today (financial "fourchettes").

The regions concerned by the so-called statistical effect would benefit from a specific, decreasing allocation under the convergence objective to facilitate their "phasing out".

2) Around 18% for the "regional competitiveness and employment" priority. Outside the phasing-in regions the distribution between the regional programmes financed by the ERDF and the national programmes financed by the ESF would be 50–50.

   Regional programmes inside the "phasing in" regions will follow the same principle of funding from a single source (the ERDF). Interventions inside these regions in pursuit of the EES will take place in the context of the national programmes financed by the ESF, with an appropriate earmarking of ESF resources to ensure that the profile for phasing in is fully respected, ERDF and ESF combined. The contribution of each Fund in the regions concerned would follow, on average, the same proportions as in the current multi-fund programmes.

3) Around 4% for the "territorial cooperation" priority.

For the distribution of the financial resources among Member States, the Commission proposes to apply the method based on objective criteria used at the time of the Berlin Council (1999) for the "convergence" priority, taking into account the need for fairness regarding the regions affected by the statistical effect of enlargement.

Resources for the objective "regional competitiveness and employment" would be allocated by the Commission between Member States on the basis of Community economic, social and territorial criteria.

Finally, the size of the population living in the relevant regions and relative socio-economic conditions would guide the distribution of resources under the "European territorial cooperation" objective.

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The Commission will organise a Forum on 10–11 May 2004, in advance of the presentation by the Commission of the new legislative proposals. This Forum will bring together all those concerned by cohesion policy to discuss the proposals contained in this report.

Priority themes

	"Convergence" priority	"Regional competitiveness and employment" priority Regional competitiveness strand
ERDF	**1. Innovation and the knowledge economy**	

	• Productive investment;
	• Development of endogenous potential. *Inter alia*:
	  • Services to enterprises
	  • Promoting innovation and R&D
		• Promoting innovation and R&D, *inter alia*, by reinforcing the links of SMEs with the knowledge base, supporting networks and clusters, and enhancing SMEs access to advanced technologies and innovation business services.

	• Promoting entrepreneurship	• Promoting entrepreneurship, by, *inter alia*, supporting the creation of new firms from universities and existing firms, or setting up new financial instruments and incubating facilities.
	• Direct aid to investment • Local infrastructure • Information society • Tourism and cultural investment	
	2. Accessibility and services of general economic interest	
	• Transport, telecommunications and energy networks, including trans-European networks;	• Secondary networks, *inter alia*, road connections to TEN-transport, but also regional train junctions, airports and harbours or multimodal platforms, regional and local inland waterways, rail sections ensuring radial connections to main rail lines.
	• Secondary networks;	• Information society, *inter alia* equitable access and use of broadband ICT networks and services; the promotion of SME access to ICT.
	• Social infrastructure	
	3. Environment and risk prevention	
	• Helping Member States to achieve full compliance with the body of EU law	• Investment in infrastructure linked to Natura 2000 contributing to sustainable economic development
	• Supporting the development of eco-industries	• Promoting the integration of cleaner technologies and pollution prevention measures in SMEs
	• Rehabilitating derelict industrial sites	• Rehabilitation of derelict industrial sites

	• Supporting measures to prevent natural and technological risks • Favouring cleaner methods of transport • Energy efficiency • Development and use of renewable energy	• Supporting measures to prevent natural and technological risks • Promotion of urban sustainable public transport • Development and use of renewable energy
	4. Reinforcing the institutional capacity of national and regional administration in managing the Structural Funds and the Cohesion Fund	
		"Regional competitiveness and employment" priority Employment strand
ESF	**1. Education, employment and social support systems**	**1. Adaptability of workers**
	• Strengthening labour market institutions • Development of education and training systems • Development of social and care services	• Enhancement of life-long learning strategies, notably by public authorities and social partners • In-company training for the adaptability of workers
	2. Human capital and labour supply	**2a. Labour supply and 2b. people at disadvantage**
	• Initial and continuing training measures • Active labour market measures to ensure access to the labour market for all • Social inclusion support measures	• Enhancement of active ageing strategies and prevention of early exit from the labour market • Measures to increase labour force participation of women • Measures to increase the employment potential, equal access and inclusion of people with disabilities, migrants, ethnic minorities
	3. Adaptation of public administration to change through administrative and capacity building	

Instruments and objectives

2000-2006		2007–2013	
Objectives	**Financial instruments**	**Objectives**	**Financial Instruments**
Cohesion Fund	Cohesion Fund	**Convergence and competitiveness**	Cohesion Fund ERDF ESF
Objective 1	ERDF ESF EAGGF-Guidance FIFG		
Objective 2	ERDF ESF	**Regional competitiveness and employment** • regional level • national level: European Employment Strategy	ERDF ESF
Objective 3	ESF		
INTERREG	ERDF	**European territorial cooperation**	ERDF
URBAN	ERDF		
EQUAL	ESF		
LEADER +	EAGGF-Guidance		
Rural development and restructuring of the fisheries sector outside Objective 1	EAGGF-Guarantee FIFG		
9 objectives	**6 instruments**	**3 objectives**	**3 instruments**

1 European Commission, *Building our common future: policy challenges and budgetary means of the enlarged Union, 2007-2013* COM(2004)101
2 COM(2003)34 final of 30.1.2003, p.4.
3 Strictly defined at the NUTS 2 level.
4 Measured in purchasing power parities and calculated on the basis of the Community figures for the last three years available at the moment the decision is taken.
5 Each of these Funds would have at its disposal resources to finance technical assistance.
6 Measured in purchasing power parities and calculated on the basis of the Community figures for the last three years available at the moment the decision is taken.
7 Defined at NUTS 1 or NUTS 2 depending on the institutional system of each Member State
8 COM(2003)34 final of 30.1. 2003, p.27.
9 Only maritime borders proposed by Member States would be eligible.
10 Council Regulation (EC, Euratom), 1605/2002 of 25 June 2002.
11 Interest to be paid by the management authority or the final beneficiary.

Part 1 — Cohesion, competitiveness, employment and growth – Situation and trends

Table of contents

Economic and social cohesion

Introduction

Disparities in income and employment in the European Union have narrowed over the past decade and, most especially, since the mid-1990s. This is the case in terms of disparities both between countries and between regions. At the same time, productivity in the least prosperous parts of the Union has risen relatively to that elsewhere, implying an improvement in their competitiveness. Large differences in relative levels of prosperity and economic performance, however, remain, reflecting continuing structural weaknesses despite the improvements made as a result of Structural Fund support.

Disparities in both income and employment will widen much further when the new Member States join the EU in May, 2004, both across countries and across regions. These countries have, in nearly all cases, experienced significantly higher growth than the EU15 since the mid-1990s after the turmoil of the initial transition years, but have a much lower level of GDP per head and, in most cases, of employment than the EU15 average.

Sustained growth well above the rate in the present Union will be necessary for a prolonged period if these countries are to attain income levels close to the EU average. To achieve this high growth with high levels of employment, the new Member States will need substantial help to tackle wide-ranging structural problems and to realise their economic potential. Just as in the existing parts of the Union where economic performance is lagging, overcoming the structural weaknesses in the new Member States would not only raise living standards there, but it would also strengthen the competitiveness and increase the growth of the EU economy as a whole.

These are the main points to emerge from the analysis presented below. This examines, first, the growth of GDP and employment in the Cohesion countries over recent years relative to that in the rest of the EU; secondly, the extent of disparities between regions in the EU15 and how this has changed over the past decade or so, with particular focus on the Objective 1 regions receiving Structural Fund support; thirdly, economic developments in the accession countries over the recent past and the way that economic performance has varied across regions within these countries; fourthly, the growth rates they require to converge towards the income levels in the present EU within a reasonable period of time; and fifthly, the implications of an ageing population. It then goes on to consider two aspects of social cohesion, unemployment and low income levels across the EU.

Economic cohesion

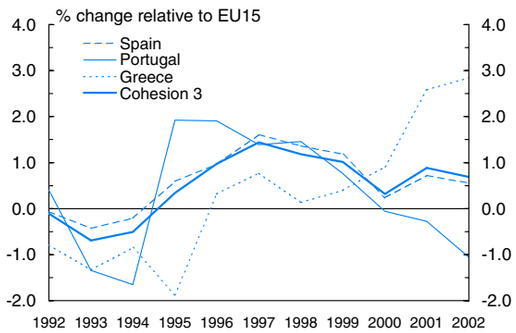
Convergence of GDP per head in the cohesion countries

In all four Cohesion countries[1], Greece, Spain, Ireland and Portugal, growth was well above the EU average between 1994 and 2001. Since, apart from Ireland, their growth of population, was only slightly higher than the average, this was translated into significant growth in GDP per head relative to that in the rest of the EU.

In Ireland, where population rose by over 1% a year, GDP per head increased in real terms by almost four times the EU average rate (8% a year as against just over 2% a year). As a result, in 2001, GDP per head in Ireland in terms of purchasing power standards (PPS) was over 17% above the EU15 average, whereas it had been 25% below average at the beginning of the 1990s. The Irish example demonstrates forcibly the effectiveness of Structural Funds support if combined with growth-oriented national policies.

In the other three Cohesion countries, growth in real GDP per head has been more modest but still higher than in the rest of the EU since the mid-1990s. From the end of recession in 1994 to the recent slowdown, growth of real GDP per head in Greece, Portugal and Spain was consistently above the EU average, whereas during the recession years, it was consistently below average (Graph 1.1).

1.1 Growth in GDP per head in Spain, Portugal and Greece relative to EU15 average, 1992-2002



Source: Eurostat, National Accounts

Between 1991 and 1994, therefore, GDP per head fell in both Greece and Portugal, while in Spain it grew more slowly than the EU average. From 1994 to 2001, growth of GDP per head in each of the three countries was similar, over 3% a year in Spain and Portugal, and just under in Greece, as compared with an EU average of just over 2% a year. Over these 7 years of economic recovery in the Union, therefore, GDP per head in these three countries together grew in real terms by almost 1 percentage point a year above the EU average (see Methodological notes at the end of the section).

As a consequence, GDP per head in the three Cohesion countries taken together increased to 79% of the EU15 average in 2001 and to 81% in 2002, in terms of PPS to adjust for different price levels. In Spain, GDP per head in these terms was less than 15% below the EU average in 2002. In Greece and Portugal, however, the deficiency was still large despite the convergence from the mid-1990s on. In both countries, GDP per head was still only 71% of the EU average in 2002.

Convergence of employment

The number in employment has also risen markedly in the Cohesion countries since the mid-1990s. Between 1996 and 2002, the proportion of people of working age (15 to 64) in jobs in the EU15 — the employment rate — increased by just over 4 percentage points. In the four Cohesion countries taken together, the increase was twice this, the average employment rate rising to 60% in 2002, just 4 percentage points less than the EU15 average (64%), half the gap 6 years earlier (Table A1.1).

The rise in Ireland was particularly large (10 percentage points), reflecting its rapid economic growth, increasing the employment rate to slightly above the EU15 average. The rise in Spain, however, was even larger (almost 11 percentage points), though the employment rate in 2002 (58½%) was still well below the EU15 average.

The increase (6½ percentage points) was more modest in Portugal, where employment was already relatively high, but still well above the EU average, taking the employment rate to 68½%, only slightly below the target of 70% set in Lisbon for the EU in 2010.

The rise in employment, on the other hand, was much smaller in Greece, only 2 percentage points over these 6 years, despite economic growth well above average. The employment rate in 2002 (57%) was, therefore, even further below the EU15 average than in the mid-1990s, with only Italy having a lower rate. In consequence, increasing employment in parts of the Union where it is well below average remains a major objective of EU policy.

Growing productivity

In Spain and, to a lesser extent, Portugal, increases in employment have contributed significantly to GDP growth, as they have in Ireland, where the number employed rose by around 5% a year between 1996 and 2002. In Ireland, employment growth was accompanied by growth of labour productivity of just under 4% a year, over three times the EU average rate. In Portugal, productivity growth was also higher than the EU average, while in Spain, where employment increased markedly, it was only around half the average.

In Greece, on the other hand, labour productivity growth was close to 3% a year between 1996 and

2002, well over twice the EU average rate, and was the predominant source of GDP growth. In Greece and Portugal, which contain the least prosperous regions in the Union, the productive base, therefore, seems to have been strengthened since the mid-1990s, increasing the potential for continued convergence in income in future years.

Recent slowdown of the EU economy

Economic growth in the EU has slowed appreciably over the three years since the publication of the last Cohesion Report. This slowdown has inevitably affected cohesion, not least because it has led to a renewed rise in unemployment in many parts (see below), but also because it has created an unfavourable climate for the continued reduction in regional disparities in both income and employment. Economic growth in the Union remained disappointing in 2003 for the third year running (at under 1%). Growth of GDP may rise to 2% in 2004 and approach 2.5% in 2005[2].

The slowdown has affected nearly all Member States. Even in Ireland, growth is estimated to have fallen to 1½% in 2003 and is forecast still to be below 4% in 2004. Portugal has been particularly affected, GDP falling by almost 1% in 2003 after growing by under ½% in 2002 and being forecast to increase by only 1% in 2004. If this forecast is realised, then much of the convergence towards the EU average in the second half of the 1990s will have been reversed in the three years 2001 to 2004.

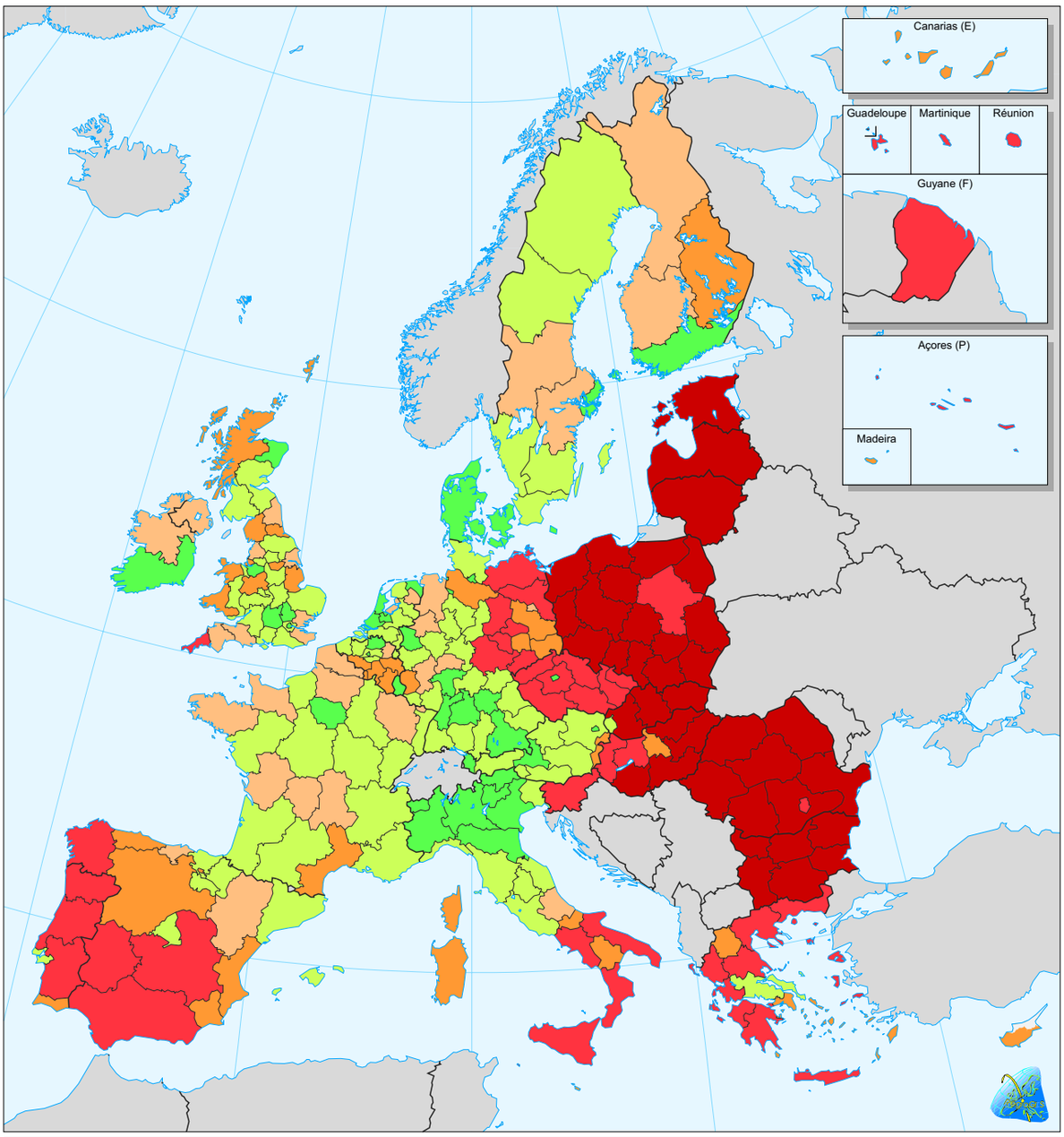
The two other Cohesion countries have fared better. In Spain, GDP seems to have grown by an average of just over 2% a year in 2002 and 2003 and growth is forecast to rise to almost 3% in 2004, while Greece appears to have been affected least of all. Here growth was around 4% in both 2002 and 2003 and the same is forecast for 2004, much higher than in the rest of the EU. In these two countries, therefore, support from the Structural Funds may have helped to maintain economic growth.

The slowdown in growth affected employment only with a relatively lengthy lag, in part perhaps because of an initial expectation among employers that it would be more short-lived. In 2003, however, it depressed the rate of employment growth in Ireland, which is estimated at under 1%, implying a fall in the employment rate (given the relatively high growth of working-age population). It also had a depressing effect in Spain, though here the rise in the number employed was still around 1½% in 2003, implying a further increase in the employment rate (by around 1 percentage point). In Greece, estimates suggest that there was a similar rise in the employment rate. In Portugal, on the other hand, the number employed is estimated to have fallen by 1% in 2003 and is forecast to remain broadly unchanged in 2004, implying a significant reduction in the employment rate.

Elsewhere in the Union, Germany and Italy have continued to perform poorly. In Germany, there was virtually no growth at all in GDP in 2002 and 2003 and in Italy, growth was less than ½% in both years. In France, where growth of GDP was similar to the EU average before 2001, only marginal growth is estimated to have occurred in 2003. In the Netherlands, where growth had previously been well above average, GDP increased only slightly in 2002 and is estimated to have fallen in 2003.

Regional disparities in GDP per head have also narrowed

Up until the recent slowdown in growth in 2001, the gap in GDP per head between the least prosperous regions in the Union — those which have been the main focus of EU cohesion policy — and the others has also narrowed over recent years. It is as yet not possible to say, however, what has happened since 2001[3]. It should be noted that the regional figures referred to in this section and the rest of the report relate to the growth of GDP per head in real terms. They are based for the first time on regional indicators derived from a new database specially constructed to be consistent over time for all EU NUTS 2 regions. They differ from the data typically used in previous empirical studies and analyses which relate to GDP in PPS terms over time, which is inappropriate to use for this



1.1 GDP per head (PPS), 2001

Index, EU25 = 100

- < 50
- 50 - 75
- 75 - 90
- 90 - 100
- 100 - 125
- >= 125
- no data

FR(DOM): 2000

Source: Eurostat

0 100 500 km

purpose (see Methodological notes at the end of this section).

Regions granted Objective 1 status because their GDP per head was less than 75% of the EU average, in PPS terms, experienced a higher rate of growth than other parts of the Union between 1988, when the Structural Funds were reformed, and 2001. As implied by the above analysis, growth has been particularly high in the regions in the Cohesion countries (which account for over half of Objective 1 regions and over half of the population living in these).

In Objective 1 regions taken together, GDP per head increased by almost 3% a year in real terms between 1994 and 2001 (the last year for which regional data are available and covering the previous programming period and the first two years of the present one) as compared with just over 2% a year in the rest of the EU. This followed growth of under 2% a year over the preceding 6 years, 1988 to 1994, though this was still above growth elsewhere in the Union (just over 1% a year)[4]. Since 1988 when the Structural Funds were reformed and expanded, therefore, GDP per head in Objective 1 regions taken together has converged consistently towards the EU average.

But the rate of convergence has varied between regions

The growth rates experienced by Objective 1 regions, however, have varied substantially between them. Convergence, therefore, has not occurred at the same rate across the Union but has been much more significant in the Cohesion countries than elsewhere, perhaps because of a combination of relatively large amounts of structural assistance and growth-oriented policies at national level (Table A1.2).

In Objective 1 regions in the four Cohesion countries, growth of GDP per head was well above the EU average over the period from the mid-1990s, as described above. This was as true for Objective 1 regions in Spain, where around 40% of the population live outside of Objective 1 regions, as in the other three countries where all the regions are eligible for support. (In Spain, growth of GDP per head in Objective 1 regions averaged 3% a year between 1994 and 2001, only slightly less than in other Spanish regions.)

Outside the Cohesion countries, growth in Objective 1 regions has been less impressive, seemingly depressed, at least in part, by slow growth at the national level. In particular, in the German new Länder, where GDP increased markedly in the early 1990s after unification, growth of GDP per head was much the same as the EU average over the 7 years 1994 to 2001 (under 2½% a year). This was, however, still well above the rate in the rest of Germany (under 1½% a year). In Italy growth in the Mezzogiorno (2% a year) was similar to that in the rest of the country and equally below the EU average.

In Objective 1 regions elsewhere in the Union, which account for only a very small proportion of national population, growth of GDP per head was in line with the EU average over this period (see Methodological note).

Despite the overall convergence of GDP per head in lagging regions towards the EU average, the gap remains wide. In 29 regions, which are home to 13% of EU15 population, GDP per head in PPS terms in 2001 was under two-thirds of the average. These are predominantly in Greece, Portugal, southern Spain and southern Italy, though they include six east German regions (Chemnitz, Dessau, Mecklenburg-Vorpommern, Magdeburg, Brandenburg-Nordost and Thüringen), Cornwall in the UK and three of the four French DOMs (Map 1.1).

Employment rates and productivity have also converged across regions

Convergence of GDP per head has been accompanied by a narrowing of disparities in employment rates across regions. While employment has increased significantly in the EU since the mid-1990s, the increase has been larger in Objective 1 regions than elsewhere. Between 1994 and 2001, the number

employed in these regions rose by just under 1½% a year, slightly more than the EU average, and in 2002, the employment rate was over 5 percentage points higher than 6 years earlier as against a rise of 4 percentage points in the rest of the Union.

Growth in labour productivity was also higher in Objective 1 regions than in other parts, averaging over 1½% a year over the period 1994 to 2001 as opposed to around 1% a year in the EU as a whole. Indeed, productivity growth contributed more to the rise in GDP than the increase in employment.

The increase in employment, however, varied markedly between Objective 1 regions. Whereas it was slightly above the EU average in Portugal and well below it in Greece, as noted above, the number employed rose markedly in Objective 1 regions in Spain (by around 3% a year) — more than in the rest of the country — and by even more in Ireland (by 5% a year). The corollary of this in the Spanish regions was low growth of labour productivity (½% a year).

By contrast, in Objective 1 regions in Germany — the new Länder — the number employed fell over this period (by almost ½% a year) but labour productivity grew by more than in other parts of the country or, indeed, in the Union as a whole (by 2% a year). Similarly, in the Italian Objective 1 regions — in the Mezzogiorno — employment increased by relatively little (by under ½% a year), while productivity growth was also above average, if by less so (over 1½% a year as against 1% in the rest of Italy).

Although competitiveness may have improved slightly in these two areas, therefore, the lack of jobs remains a major problem. This is particularly the case in southern Italy, where only 43% of working-age population were in jobs in 2002, well below the proportion in other Objective 1 regions — or indeed anywhere else in the Union. The average employment rate in Objective 1 regions as a whole was still over 10 percentage points less than in other parts of the EU (56% as opposed to 66½%) (Map 1.2). Increasing the employment rate in lagging regions, therefore, remains a central part of EU cohesion policy.

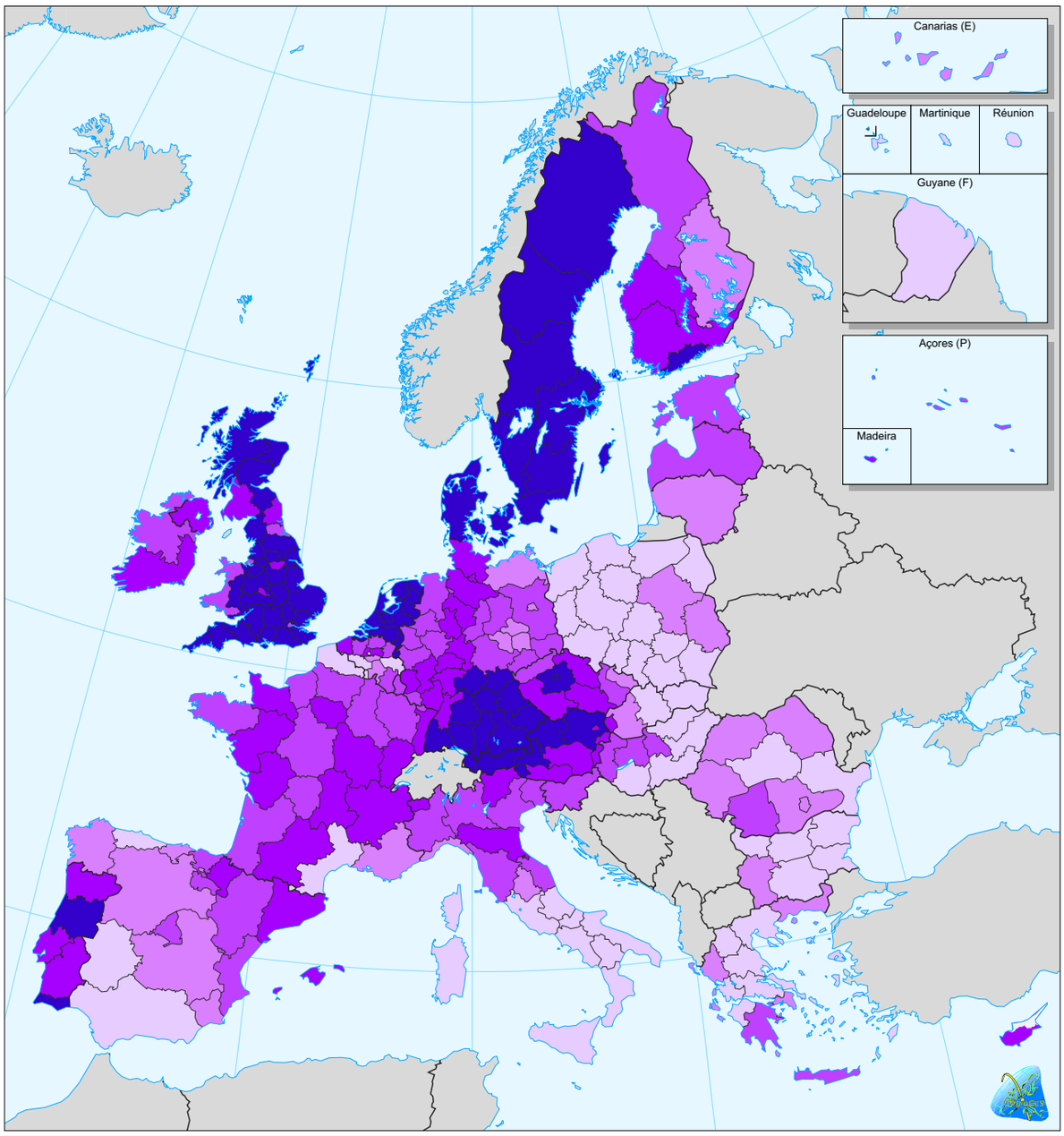
Problem regions not confined to those with the lowest GDP per head

Weak economic performance in the EU, and the structural problems that underlie this, is not confined to regions with the lowest levels of GDP per head. Problem regions, both at NUTS 2 and, even more numerously, at NUTS 3 level, are spread across the Union. The problems affecting these regions stem from a number of different sources, including the decline of traditional industries, geographical features which constrain development, falling employment and population and a decline in essential services or a lack of innovative capacity and the necessary support structures. All of these, either individually or in combination, tend to discourage investment and deter new business development. These problems are described in later sections (see the sections on territorial cohesion and on competitiveness factors). If not tackled, they are liable to worsen over time leading to a progressive deterioration in economic performance.

For example, there are 11 NUTS 2 regions with comparatively low levels of GDP per head in which real growth of GDP between 1994 and 2001 was around half the EU average rate or less over the period. All of these regions had a level of GDP per head in PPS terms significantly below the EU average but above the 75% threshold for eligibility for Objective 1 status.

These 11 regions are spread across the north-east of England, in several parts of Germany (Koblenz and Münster, for example) as well as in Sweden. In each case, they had low growth of productivity, this increasing on average by only ½% a year over the period — only slightly over a third of the EU average — as well as low growth of employment (just over ½% a year as against an EU average of almost 1½% a year).

Taken together, their GDP per head in PPS terms in 2001 was around 85% of the EU average, but nearly all of them contain areas in which there has been little



1.2 Employment rates, 2002

Employed 15-64 as % of population 15-64

- < 56.0
- 56.0 - 60.2
- 60.2 - 64.4
- 64.4 - 68.6
- >= 68.6
- no data

EU27 = 62.4
Standard deviation = 8.4

Sources: Eurostat and National Statistical Offices

0 100 500 km

growth at all over the past 10 years or more and GDP per head was below 75% of the EU average.

If economic growth in these regions continues to be depressed, then GDP per head before too long will fall below the 75% level, at which time they might become eligible for Objective 1 assistance. By then, however, the structural problems which need to be overcome are likely to have deteriorated further, requiring more drastic action. This raises the question of how far cohesion policy should anticipate such a worsening and intervene at an earlier stage to try to arrest decline and to do so with a lower level of expenditure.

Growth of GDP in the accession countries

In the new Member States, growth of GDP averaged just over 4% a year between 1994 and 2001 in all except Hungary (just below) and the Czech Republic. In the latter, growth was only just over 2% a year, while in Bulgaria and Romania (the two accession countries not due to join the EU in 2004), GDP increased barely at all. Since, however, population changed in different ways across the countries — increasing significantly in Cyprus and Malta, declining by around 1% a year in the three Baltic States as well as in Bulgaria and changing relatively little elsewhere — growth in GDP per head varied by slightly more than growth in GDP.

Overall, growth of GDP per head in real terms in the new Member States was around 1½% a year above the EU15 average over this period.

Since 2001, growth has slowed in these countries taken together, in part because of the fall-off in growth in the EU, their major export market. Overall, growth was just under 2½% in both 2001 and 2002 and is estimated to be 3% in 2003. The slowdown was particularly marked in Poland, where growth averaged only just over 1% in 2001 and 2002 and it was even lower in Malta because of a fall-off in tourism from the EU.

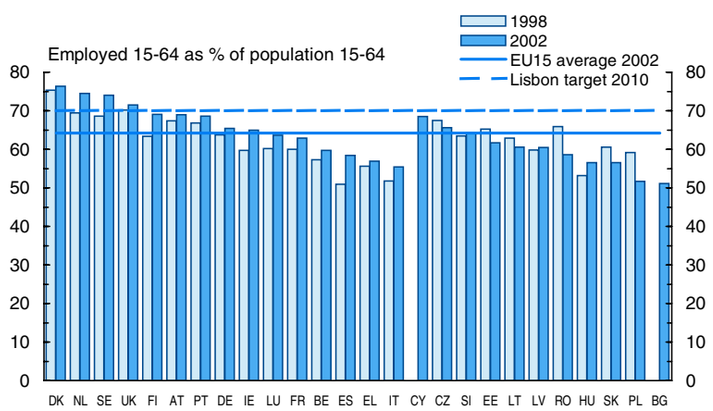
But little growth in employment as restructuring continues

Even before the recent slowdown, growth did little to ease the employment problems which emerged in the transition countries in the early 1990s. In all of the countries with high growth rates, except Hungary and Slovenia, labour productivity increased markedly and employment either rose by only a little (Latvia) or fell (in all the other cases), reflecting the ongoing restructuring of their economies which in most cases is far from complete.

Growth in the accession countries during the transition has, therefore, come predominantly from increases in output per person employed rather than from higher employment. In most countries, this has remained the case over the most recent years, especially in the countries with the lowest levels of GDP per head. (`Accession countries´ is used throughout this report to denote the 10 new Member States plus Bulgaria and Romania.)

Between 1998 (when data became available for most of the countries) and 2002, the employment rate fell by over 7 percentage points in Poland, as well as in

1.2 Employment rate, 1998 and 2002



MT: no data; BG and CY: no data for 1998

Source: Eurostat, LFS

Romania, by almost 4 percentage points in Estonia and by 2 percentage points in the Czech Republic, Slovakia and Lithuania. On the other hand, the employment rate increased in Slovenia, though by less than 1 percentage point, Latvia and Hungary (by over 3 percentage points in the last), though as noted below the level remains well below the EU15 average (Graph 1.2).

The slowdown has led to a further fall in employment, especially in Poland, where the number in work declined by over 2% in 2002 and is estimated to fall further in 2003. In the latter year, growth of employment of more than ½% is estimated only in two countries, Lithuania and Slovakia.

Employment rates therefore remain low in the accession countries

As a consequence of the depressed growth of employment, the proportion of working-age population in jobs in the accession countries has declined steadily since the transition began while, in the EU15 the proportion has risen. In 2002, this proportion — the employment rate — averaged just 56% in the 10 new Member States, much lower than the EU15 average (just over 64%) though similar to that in present Objective 1 regions. This similarity, however, disguises the fact that, as noted above, employment rates in Objective 1 regions were tending to increase significantly up until the recent slowdown, whereas in the new Member States, they were tending to decline.

In all of the accession countries, except Cyprus, the employment rate was below the targets for the EU set at the Lisbon summit of 67% in 2005 and 70% in 2010. While it was relatively close to the 67% target in the Czech Republic (65½%) and was the same as the EU average in Slovenia, elsewhere the gap was substantial. In Hungary and Slovakia, the rate was around 56%, similar to that in Greece and slightly higher than the average for Italy, and in Poland, it was just under 52%, lower than in any of the present Member States.

Wide disparities in GDP per head between regions in accession countries

Growth in the accession countries has been far from regionally balanced. In all the transition countries, it has been disproportionately concentrated in a few regions, particularly in capital cities and surrounding areas. As a result, regional disparities in GDP per head have widened significantly.

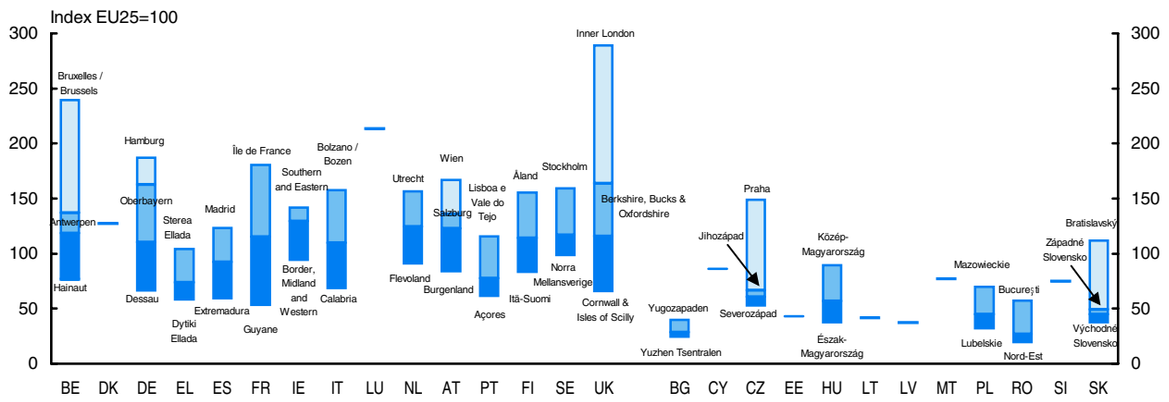
In both the Czech Republic and Slovakia, the 20% of the population living in the most prosperous regions have a GDP per head which is just over twice as high as the 20% living in the least prosperous regions. This is similar to the gap in Italy or Germany. In Hungary, the level of GDP per head in the regions with the most prosperous 20% of population is some 2.4 times the level in the least prosperous, more than in any of the existing EU Member States.

Enlargement will increase the disparity in GDP per head across the EU markedly

The 10 new Member States will add much more to EU population (just under 20%) than to its GDP (around 5% in terms of Euros). Bulgaria and Romania together would add a further 8% to EU population but under 1% to GDP. Even taking account of lower costs of living, all the countries are much less prosperous than the existing EU Member States, if to widely varying degrees. The impending enlargement to 25 Member States, and subsequently to 27 or more, will, therefore, fundamentally change the scale of disparities across the EU. Cohesion policy — and other EU policies — will need to adapt in response to this.

Although the new Member States have grown faster than the EU15 since the mid-1990s, as noted above, the gap in GDP per head remains pronounced. Only Malta, Cyprus, the Czech Republic and Slovenia had a GDP per head in PPS terms above 60% of the EU15 average in 2002. In Poland, Estonia and Lithuania, it was only around 40% of the average and in Latvia, just 35% of average. In Bulgaria and Romania, it was only around 26–27% of the average.

1.3 GDP per head (PPS) by country and regional extremes, 2001



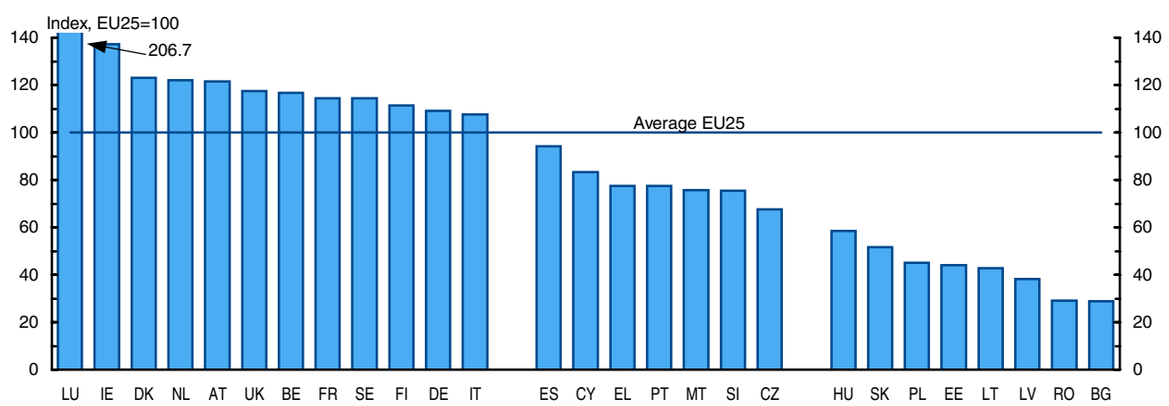
Source: Eurostat, Regional accounts

Once enlargement occurs, therefore, there will be a major widening of the income gap between the most and least prosperous Member Stares. Even though average GDP per head in an enlarged EU will be lower than in the EU15, only Cyprus has a level above 80% of the average in an EU of 25 Member States. In Latvia, the level is 38% of the EU25 average, less than half the level in Greece or Portugal (77–78%), while in Romania and Bulgaria, it is under 30% of the average (Graph 1.3).

In other words, whereas the gap between the average GDP per head in the EU15 and the level in the least prosperous Member States is currently just under 30% (ie Greece and Portugal have levels almost 30% below average), the gap will double when the new Member States join in 2004 (ie Latvia has a GDP per head which is over 60% below the EU25 average) and is likely to widen even more once Bulgaria and Romania enter.

In an enlarged EU, countries can be divided into three groups according to GDP per head in PPS terms. For the first group consisting of 12 of the present 15 Member States, GDP per head is well above the EU25 average (10% or more). In the second group of

1.4 GDP per head (PPS), 2002



Source: Eurostat, National accounts

7 countries, comprising the remaining three present Member States, Spain, Portugal and Greece, plus Cyprus, the Czech Republic, Slovenia and Malta, GDP per head is between 68% and 94% of the EU25 average. In the third group of 8 countries (including Bulgaria and Romania), all of which are new or prospective Members, it is under 60% of the average (Graph 1.4).

Disparities between regions will widen even further with enlargement

Enlargement will have an even greater effect on disparities between regions than between countries. Whereas around 73 million people, some 19% of the EU15 population, live in regions where average GDP per head in the years 1999 to 2001 was below 75% of the EU average, according to the latest estimates, almost as many, some 69 million of the 74.5 million who will become EU citizens in 2004 (92% of the total), live in regions with GDP per head below 75% of the EU25 average in the new Member States.

This does not mean, however, as discussed further below, that these 69 million people will simply add to those at present living in regions with GDP per head below 75% of the EU average, since this average itself will be reduced (from an average covering 15 Member States to one covering 25) as a result of enlargement. This will have the effect of reducing the number of people living in such regions in the present EU15 by around 19 million. The net result of enlargement will, therefore, be to increase the number living in regions with GDP per head below 75% of the average to 123 million in the EU of 25. Once Bulgaria and Romania join, this total will rise further to over 153 million or to almost 32% of the EU27 population, ie to more than double the number now living in such regions.

In an EU of 27 Member States, two-thirds of those in regions with GDP per head of below 75% of the EU25 average would live in the new Member States. Around one in six people would live in regions where GDP per head is below half the EU average. None of the 38 regions concerned is in the present EU15.

The statistical effect

Enlargement will add very much more to EU population than to GDP, reducing average GDP per head significantly. Average GDP per head in the EU of 25 Member States will be around 12½% less than the average in the EU of 15. For 17 regions, it will mean that their income per head is no longer below the 75% threshold given that this is now lower than it was before. It will also be above 75% in Malta where it is now below 75% of the EU15 average.

As noted above, estimates suggest that almost 19 million people live in such regions, most of which at present have Objective 1 status under the Structural Funds (with a further 400 thousand in Malta). If the criterion for determining Objective 1 status remains unchanged, the regions concerned will lose their eligibility for structural assistance, even though their GDP per head will be precisely the same after enlargement as before, as will the structural problems which underlie its relatively low level and which prompted the structural assistance initially. On the present estimates, four of these regions, for example, are in the eastern part of Germany, four are in the UK, four are in Spain, one is in Greece and one in Portugal (Table A1.3)

Employment disparities between regions will be equally wide

Employment rates in most regions in the accession countries are lower than the present EU15 average, though in none are they as low as in the south of Italy. Only in four regions — Cyprus and Střední Čechy, Jihozápad and Praha in the Czech Republic — did the rate exceed the 67% Lisbon target for 2005 and only in Praha was it over 70%, the Lisbon target for 2010. By contrast, there were 53 (NUTS 2) regions in the current Member States in which the rate was above this, most of these being in the Nordic countries, the UK and the Netherlands.

In an enlarged EU of 25 Member States, there will, therefore, be 14 regions in which the employment rate

is under 50%, 6 in southern Italy, one in Spain (Ceuta y Melilla) and one in France (Corse) in the present EU15 and five in Poland and one in Hungary (Észak-Alföld) in the new Member States. (In Bulgaria, there are another three regions with rates below this level.)

These low employment regions for the most part have relatively low levels of GDP per head, to a large extent because of the failure to employ large numbers of people in productive activities. However, the association between employment rates and relative levels of GDP per head is far from being uniform. In some of the accession countries, Poland, in particular, though also Romania, the employment rate is more closely associated with the size of the agricultural sector, which in some sense provides jobs of last resort, than with GDP per head. This reflects the continued persistence of subsistence farming and contrasts with the position in the present EU, where employment rates tend to be low in agricultural regions.

It suggests that, in these regions especially, economic development is likely to be accompanied by substantial restructuring and shifts of employment between sectors, though the need for restructuring is by no means confined to these regions.

Sectoral composition suggests significant restructuring is likely in the accession countries…

An insight into possible future changes in the structure of employment as economic development takes place can be obtained by comparing the way that employment is divided between sectors of activity in the accession countries and in the present EU15, and within the latter, in existing Objective 1 regions and others (Map A1.1). Such a comparison is most instructive if an explicit adjustment is made for differences in the overall employment rate between different areas — in other words, by examining the proportion of people of working-age population employed in different sectors — rather than by simply comparing the shares of various sectors in total employment. This then gives a guide to the possible way in which those finding jobs will be divided between sectors as the numbers employed in the less developed countries and regions increase.

The overall employment rate in the accession countries, despite falling over recent years, was still slightly higher than in existing Objective 1 regions in 2002. This is largely due to much larger numbers employed in agriculture and manufacturing, especially in textiles and clothing and other basic industries, which is offset in large part by lower employment in services as well as in construction (Table A1.4).

The relatively low employment in services in the accession countries is much more apparent in comparison with non-Objective 1 regions in the EU, which have much larger numbers employed in this sector than Objective 1 regions. The shortfall is large in all service activities. It is particularly pronounced in advanced and communal services (business and financial services and education, health and social services) where the difference between Objective 1 and other regions is most evident.

While, therefore, the structure of employment in the accession countries has tended to move towards that in the EU during the transition years, the rate of change has been slow. The substantial job losses in agriculture and basic industries have not as yet in most regions been offset by sufficient growth of jobs in services. And further substantial job losses in agriculture in particular can be expected in future years.

… particularly towards the service sector in which job growth in the EU has been concentrated

On the experience of existing Member States, future job growth in services in the accession countries — as well as in present Objective 1 regions — is likely to be concentrated in advanced and communal services, though significant expansion can also be expected in basic services (the distributive trades, hotels and restaurants, transport, communications and personal and community services) in which the level of employment is still well below that in the EU15.

Over the 6-year period, 1996 to 2002 when the overall employment rate in the EU15 increased by just over 4 percentage points, virtually all the growth in jobs was in services, with advanced services accounting for some 40% of the net increase in employment and communal services for another 26% (Graph 1.5). Between them, therefore, these two sectors were responsible for twice the number of net additional jobs created as in basic services which was slightly larger in terms of the total number employed.

By contrast, jobs in agriculture, basic manufacturing industries and public utilities declined in relation to working-age population, while there were small increases in employment in the chemical and engineering industries and a larger rise in construction, which tends to be affected more than other sectors by the economic cycle. The continued trend towards advanced service activities as well as communal services underlines the need to raise educational attainment levels given their demand for highly qualified workers, which is likely to continue to rise in future years[5].

The challenge facing accession countries, which is mirrored in Objective 1 regions, is to strengthen competitiveness over the long-term in order to sustain high rates of economic growth while at the same time increasing employment rates. Strengthening competitiveness means achieving continuing gains in productivity which remains substantially below the level in the EU15 and even further below the level in the more prosperous regions.

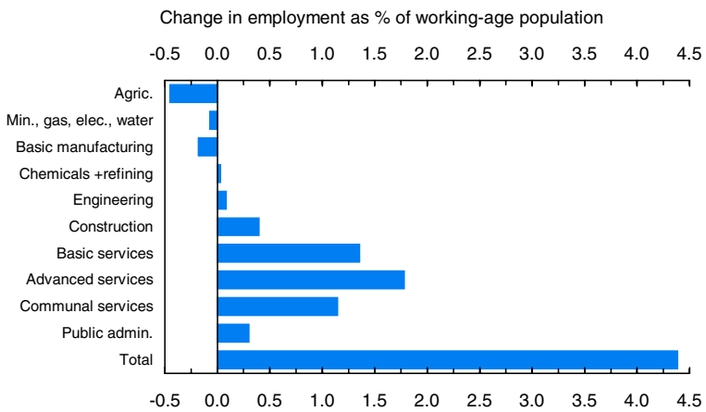
Although it is important to stress that there is no conflict in the long-term between this objective and raising employment — indeed, the creation of long-tem, stable jobs is dependent on increasing competitiveness — this is not necessarily the case in the short-term. Shifts of employment out of low productivity sectors, particularly agriculture, into higher productivity ones are essential if competitiveness is to be increased. At the same time, there is an ongoing need to increase productivity within sectors of activity and to continue the process of rationalisation and reduction in overmanning which has occurred over the transition period (Map A1.2).

The challenge of convergence in the accession countries

The structural problems in the acceding countries which underlie their low GDP per head and low level of employment are both substantial and wide-ranging. The challenge for cohesion policy is to help them bring their infrastructure up to date, modernise their education and training systems and create a business environment favourable to investment so that they can sustain the high rates of growth required for them to converge towards employment and income levels in the EU at an acceptable pace. For this to occur implies growth rates for most of the countries of at least 5–6% a year for a prolonged period (see Box on catch-up scenarios).

This is not impossible, as the experience of Ireland demonstrates forcibly, but it will require effective support from the EU to ensure that structural problems in these countries are overcome and that their

1.5 Change in sectoral employment rates in the EU15, 1996-2002



Source: Eurostat, LFS and Regional accounts

employment levels and competitiveness can be increased substantially, as well as an efficient mix of internal policies.

The contribution of cohesion policy to EU growth

Achieving high rates of growth by improving productivity performance and raising employment in the accession countries is not only important for raising living standards there and for generating the resources required to finance improvements in infrastructure, communal services and so on, it is also important for existing Member States. Given the increasing interdependencies which exist in trade and investment, the economic development of the new Member States can potentially provide the dynamic to initiate and sustain higher rates of growth throughout the EU.

Structural deficiencies in endowment of infrastructure and human capital mean that these countries, as well as many lagging and problem regions in the EU15, are not able to contribute as much as they might to the competitiveness of the EU as a whole.

The result is lower levels of income and employment in the EU than can potentially be achieved and lower growth potential to the detriment of all, not just those directly affected. Reducing existing disparities would, therefore, strengthen the competitiveness of the EU economy and its capacity for sustained development. It would also reduce the risk of bottlenecks and inflationary pressure occurring in the stronger regions as growth takes place, so bringing it to a premature end.

In the case of the accession countries, it would enable them to increase their rate of economic growth and, accordingly, to expand their imports from existing EU Member States. At present, imports amount to over half of GDP in these countries — much more than in the Cohesion countries (in Greece and Spain, imports are only around 30% of GDP and in Portugal, 38%) — and have tended to rise by much more than GDP when growth occurs. This is likely to continue to be the case for some time to come, as countries buy in the manufactures, particularly machinery and equipment, not produced domestically which are required for their continued development.

Any increase in GDP, therefore, goes disproportionately on purchasing goods from abroad, most especially from existing EU Member States, which account for some 60% of total imports, and in particular from Germany (which accounts for around 25% alone) and Italy (almost 10%).

The gains to Germany and Italy, in particular, of stimulating growth in the new Member States are, therefore, substantial, though all existing EU countries stand to benefit from this and from the higher growth of the EU market which it will give rise to, in much the same way that they benefit from growth of the Cohesion countries and Objective 1 regions (see Part 4, section on the Structural Funds as a means for economic integration).

Population in decline across Europe

Population in the EU15 has grown only slowly for many years. Since the mid-1990s, growth has averaged only 0.3% a year, most of this being a result of net inward migration. In several Member States — Germany, Italy and Sweden, in particular — population would have fallen without this. Natural population growth is projected to fall further in the future and with similar rates of migration as in the past, population will begin to decline in most Member States over the next 20 years.

Falling population was already a feature of many regions in the second half of the 1990s (in 55 of the 211 NUTS 2 regions in the EU15). In the accession countries, population fell in most regions over this period (in 35 of the 55 NUTS 2 regions), due to a natural fall as much as outward migration.

And is set to fall further in future years

According to the latest demographic projections[6], population will continue to grow slowly in all EU15

How long will it take the accession countries to catch up?

The scale of the cohesion challenge posed by enlargement can be illustrated by 'catch-up scenarios', indicating how long it will take GDP per head in the new Member States together with Bulgaria and Romania to reach the EU average on simple assumptions about their growth rates relative to the average rate in the present EU15.

Two scenarios are considered here, the first in which growth is maintained in these countries at 1½% a year above the EU15 average, which is the average achieved over 7 years 1995 to 2002, the second in which growth is sustained at 2½% above the EU15 average. Both start from the latest forecast of GDP per head in the different countries in 2004

If growth in all the countries can be sustained into the future at 1½% above that in the rest of the EU (i.e. 4% a year if growth is 2½% a year in the EU15), average GDP per head in the 12 countries would remain below 60% of the enlarged EU27 average until 2017 (Graphs 1.6 and 1.7). In this year, it would exceed 75% of the average only in Slovenia, Cyprus, the Czech Republic and Hungary. If growth were to continue at this rate, Slovakia would reach 75% of the average by 2019, but it would take the next country, Estonia, a further 10 years to attain this level. In 2035 — more than 30 years from now — Poland would be approaching this threshold but it would take Latvia until 2041 to reach it. At this rate of growth, Bulgaria and Romania would still have a level of GDP per head below 75% of the average in 2050.

If growth were to be sustained at a significantly higher rate than this, at 2½% above the EU15 average (implying growth of just over 5% a year if growth in the EU15 is 2½%), then convergence would, of course, happen within a shorter period of time. Nevertheless, the number of years involved remains considerable for many of the countries. For Poland, for example, even at this rate, it would still take 20 years or more for GDP per head to reach 75% of the EU average and many more years to converge to the EU average or close to it. For Bulgaria and Romania, it would take much longer than this. Nevertheless, at this rate of growth, the number of regions in the accession countries which require structural support because their GDP per head is below 75% of the EU average is reduced markedly quicker than if growth were to be slower. These scenarios should not be taken to imply that growth of 4% or 5% a year in these countries is the most that can be expected. First, the experience of Ireland over the past decade shows what can be achieved in terms of rapid growth. Secondly, growth potential in the new Member States will be greatly enhanced by improvements in the capital stock as a result of EU cohesion policy.

Even if rates of growth well above the average in the EU15 can be sustained in the long-term, these scenarios demonstrate that for most of the countries, catching-up to the EU average is likely to be a long-term process.

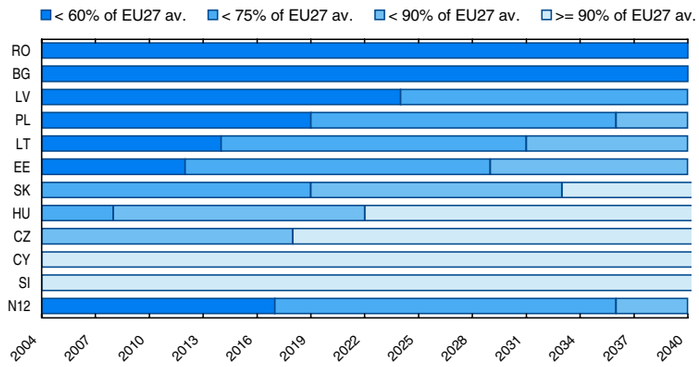
Member States over the remainder of the decade, except in Italy and Austria, where it will decline. Before 2015, population is projected to begin falling as well in Greece, Spain, Portugal — the three southern Cohesion countries — and Germany, and over the following 10–15 years, it will also begin falling in Belgium, Finland and Sweden.

In the accession countries, population has already begun to decline in all except Cyprus, Malta and Slovakia, and in the last of these it is projected to begin falling before 2020 (Graph 1.8).

Working-age population also set to decline

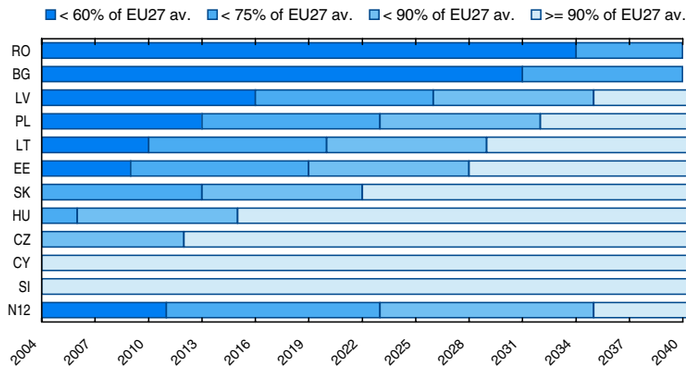
More relevantly for employment, population of working age (15 to 64) is likely to begin falling earlier than the total. It is projected to decline over the remainder of the decade in the south of Europe, in particular, in Greece, Portugal and Italy but also in Germany. After 2010, decline will set in within a few years in all countries apart from Ireland and Luxembourg. In the EU15 as a whole, the number is projected to be some 4% lower in 2025 than in 2000 but in the three southern Cohesion countries, 6% lower and in Italy, over 14% lower.

1.6 Simulation of GDP per head (PPS) in the accession countries, 2004-2040 (relative growth assumption 1.5% pa)



Growth assumption: 1.5% per year higher than EU15 average
N12 = new Member States plus BG and RO; MT: no data
Source: DG REGIO calculations based on Eurostat, National accounts

1.7 Simulation of GDP per head (PPS) in the accession countries, 2004-2040 (relative growth assumption 2.5% pa)



Growth assumption: 2.5% per year higher than EU15 average
Source: DG REGIO calculations based on Eurostat, National accounts

In the accession countries, working-age population is projected to decline over the remainder of the decade in all except Cyprus, Malta, Poland and Slovakia. In the following few years, it will begin falling everywhere apart from Cyprus. In 2025, on the latest projections, the number of people aged 15 to 64 in the accession countries will be over 10% less than in 2000. In Bulgaria and Latvia, it will be over 20% less, in Estonia, almost 30% less (Map A1.3).

More people of working age over 50

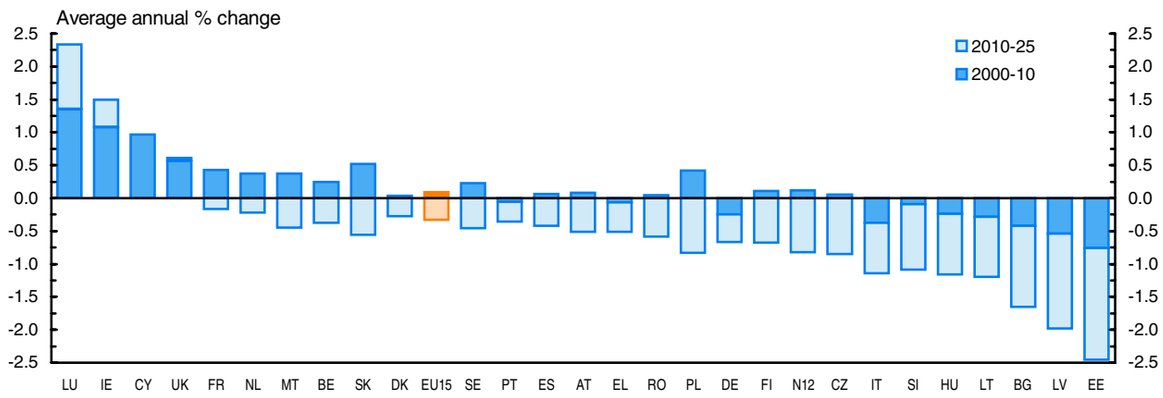
This widespread decline in working-age population will be accompanied by a marked shift in age composition. Those aged 50 to 64, many of whom are no longer working in many present and prospective Member States, will account for a growing share and young people coming into the labour market for a declining one.

By 2025, those aged 50 to 64 will account for 35% of population of working age in the EU15 as against 26% in 2000. In Italy, the share will rise to 40% and in Germany, Austria, Greece and Spain, to 36–37%. In the accession countries, the increase is projected to be smaller but still significant, the average share rising from around 26% to some 31%, but to 34% in the Czech Republic and 36% in Slovenia.

The fall in the number of people of working-age across Europe will be accompanied by a large and continuing increase in the number aged 65 and over — the typical official age of retirement. Up to 2025, population of this age is projected to grow by around 1½% a year in both the EU15 and the accession countries. As a result, the number aged 65 and over will be 40% higher in 2025 than in 2000 in both regions. In an EU of 27, only in the three Baltic States, Bulgaria and Romania will growth be below 1% a year. In Ireland, the Netherlands and Finland as well as Cyprus, Malta and Slovenia, population of 65 and over is projected to grow by 2% a year or more (Map A1.4).

Given these trends, increasing the number of people of this age who remain in work is of major importance from both an economic and social perspective and a key part of the European Employment Strategy. To be successful, this will require changes in policies and attitudes not only towards

1.8 Projected decline in working-age population, 2000-2025



Source: UN Demographic projections

early retirement but also towards the training of older people.

Rising old-age dependency rates

The implication of these divergent demographic trends is a large rise in old-age dependency rates, the number of people of 65 and over relative to those of working age. In the EU15, the population aged 65 and over amounts to almost 25% of that of working age — ie there are four people aged 15 to 64 for every one of retirement age. By 2025, the figure will rise to 36%, or less than three people of working-age for each one in retirement. In the accession countries, the rate is projected to increase from under 20% to over 30% during this period. Especially large increases are projected in Italy, Finland, Sweden and Germany, where the dependency rate is set to rise to around 40% by 2025. In the accession countries, the increase is expected to be particularly large in the Czech Republic, Malta and Slovenia, where rates of 36–38% in 2025 are projected as against under 20% in 2000.

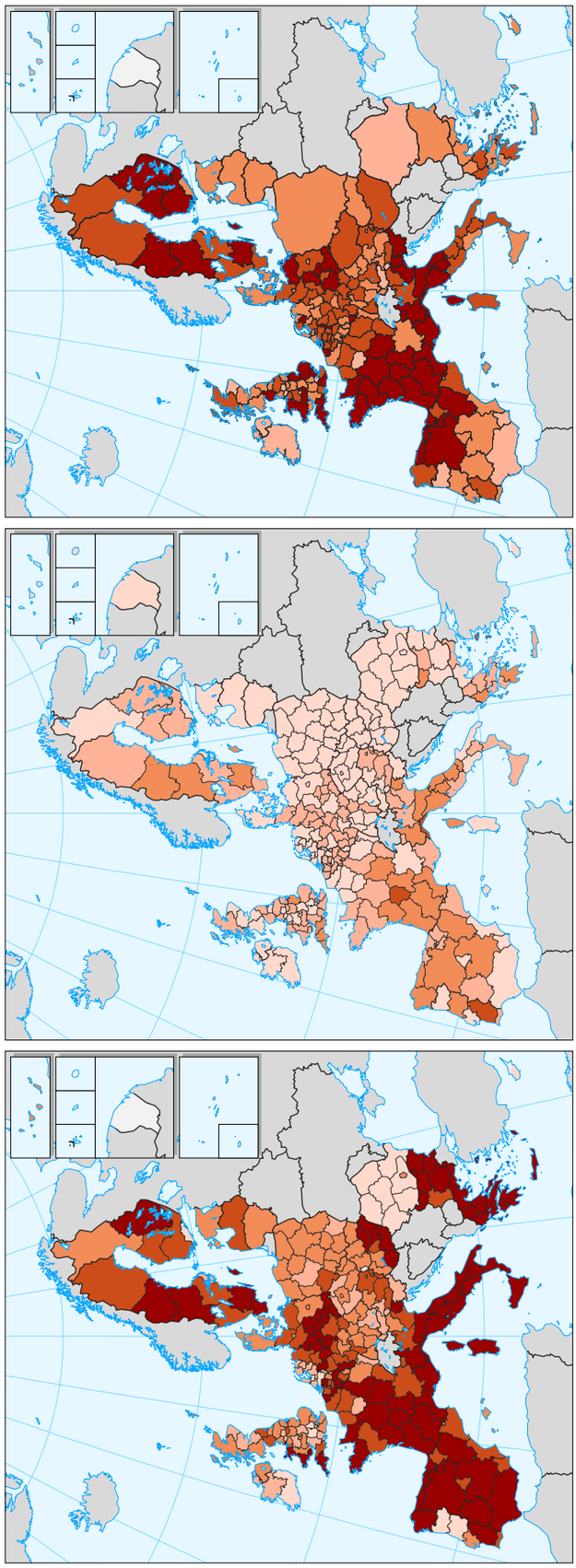
By 2025, dependency rates are projected to exceed 40% in 42 regions; 12 of these in France, accounting for 42% of total population in the country. The lowest rates — below 25% — are forecast in several outermost regions, Açores, Madeira, Ceuta y Melilla, with small populations, though also in Ile de France (Paris) and London (Map 1.3).

And actual dependency rates?

Dependency rates calculated as above are informative but hypothetical, in the sense that they do not reveal how many people of working-age will be in employment to support those aged 65 and over in practice and not just in principle. As noted above, only 64% of those of working-age were actually in employment in the EU15 in 2002 and in the accession countries, only 56%. These figures, moreover, vary markedly between countries and regions.

For example, Italy and Sweden have similar dependency rates as measured above, but much lower employment in Italy means that its actual dependency rate is 30% higher than in Sweden. Already, therefore, there are only two people in employment in Italy to support every person of 65 and over, whereas in most other Member States, there are at least three. In Greece and Spain, however, as well as in Belgium, the number is less than 2½ (ie the actual dependency rate is over 40%). Even if the employment rate were to remain unchanged in the coming years, the actual dependency rate projected for 2025 in Denmark, the Netherlands, Portugal and the UK, as well as in

1.3 Old-age dependency rates, 2000 and 2025



Ireland and Luxembourg, would be lower than the rate in Italy now.

In all the accession countries, except for Bulgaria, the actual dependency rate is below the EU average, despite the relatively small proportion of working-age population in jobs. If there is no substantial rise in employment in the coming years, however, the rate in many of the countries could rise above that in most existing EU Member States.

This emphasises the central importance of achieving a high level of employment in future years, supported by economic growth, if prospective demographic trends are not to lead to increasing social tension.

Higher employment coupled with a smaller number of people drawing pensions might occur as retirement patterns change and the health of the elderly continues to improve. In other words, it could well be the case that more people will choose to continue working beyond the present retirement age in future years. In this regard, it will become increasingly important to exploit the productive potential of older people.

There is a significant regional dimension to this insofar as demographic structure and trends vary markedly between regions as a result of differing patterns of mortality, fertility and migration. There is, therefore, a clear role for regional policy in, for example, mobilising older workers and exploiting their entrepreneurial and other skills, as well as in ensuring their access to training.

Social cohesion

Maintaining social cohesion is important not only in itself but for underpinning economic development which is liable to be threatened by discontent and political unrest if disparities within society are too wide. Access to employment is of key significance since it determines in most cases whether people are able both to enjoy a decent standard of living and contribute fully to the society in which they live. For those of working-age, having a job or being able to find one within a reasonable period of time is, therefore, invariably a precondition for social inclusion.

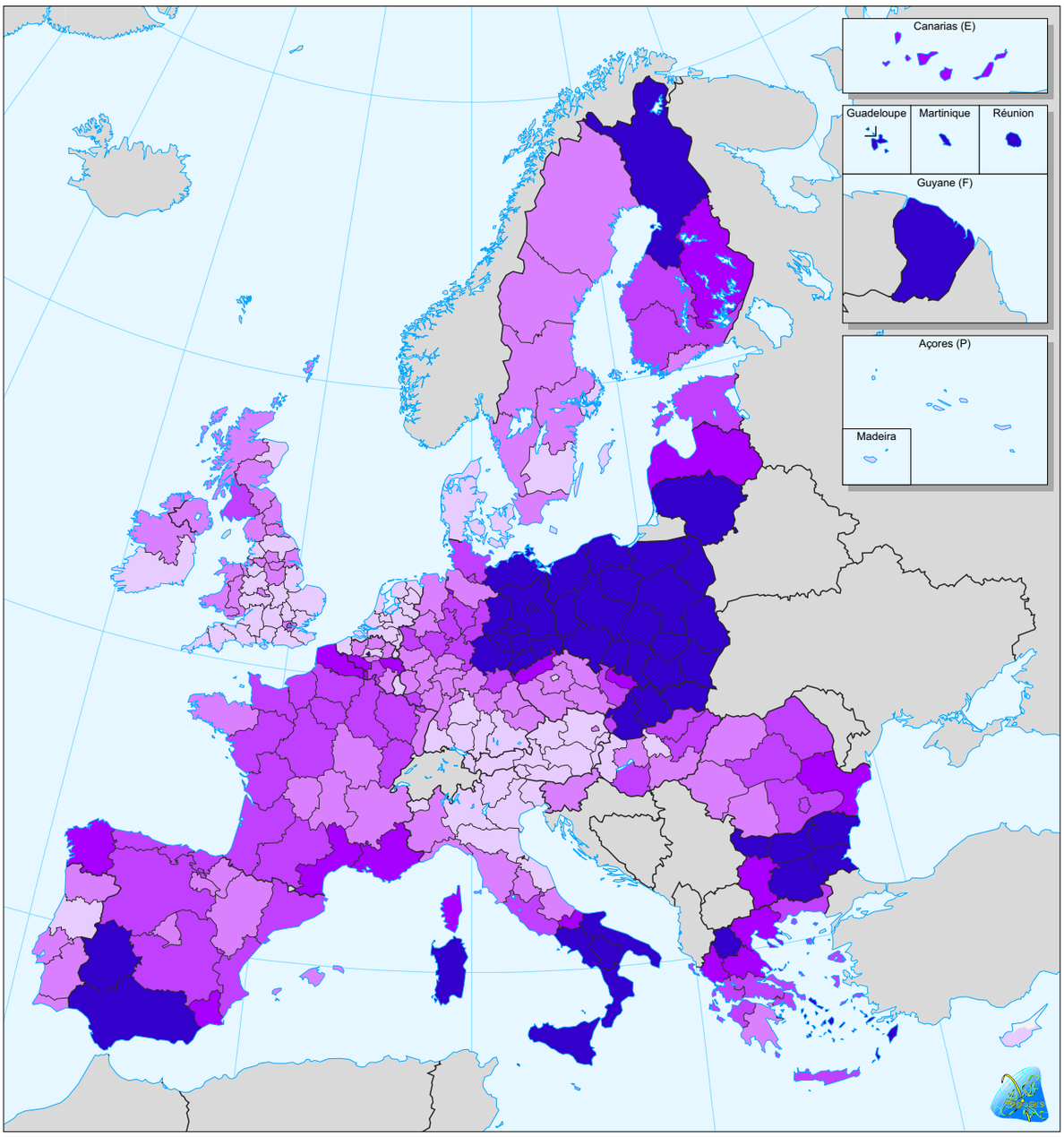
As indicated above, the proportion of those of working-age in employment has increased in most parts of the EU over recent years, contributing both to economic growth and to improving social cohesion. In the accession countries, by contrast, the proportion in jobs has tended to decline with the opposite effect. As described below, unemployment has, therefore, become a major problem in many of these countries. It also remains a problem in many parts of the EU15, despite the reduction which occurred from the mid-1990s up until the recent slowdown in growth.

As also described below, significant numbers of people in both the present Member States and the new ones have levels of income which put them at risk of poverty in spite of the extensive social protection system which exists in all the countries concerned.

Falling unemployment in most parts of the EU but disparities remain wide

The widespread fall in unemployment which accompanied job growth in the EU from 1994 up until the present slowdown was especially pronounced in Spain and Ireland, two Cohesion countries in which unemployment rates had been particularly high for many years. In Spain, the rate fell from 18% of the labour force in 1996 to 11½% in September 2003, the latest date for which figures are available, while in Ireland, the fall was of a similar size and reduced the rate to under 5%. Nevertheless, although unemployment is now well below the EU15 average in Ireland, in Spain, it remains well above the average (8%) and continues to be higher in Objective 1 regions in the country than elsewhere (in Extremadura and Andalucía, it was just over 19% in 2002).

In Portugal and Greece, moreover, there has been little change in unemployment. In Portugal, the rate fell from 7½% in 1996 to 5% in 2002 but it has since risen back to 7% as employment has fallen. This is still



1.4 Unemployment rates, 2002

% of labour force

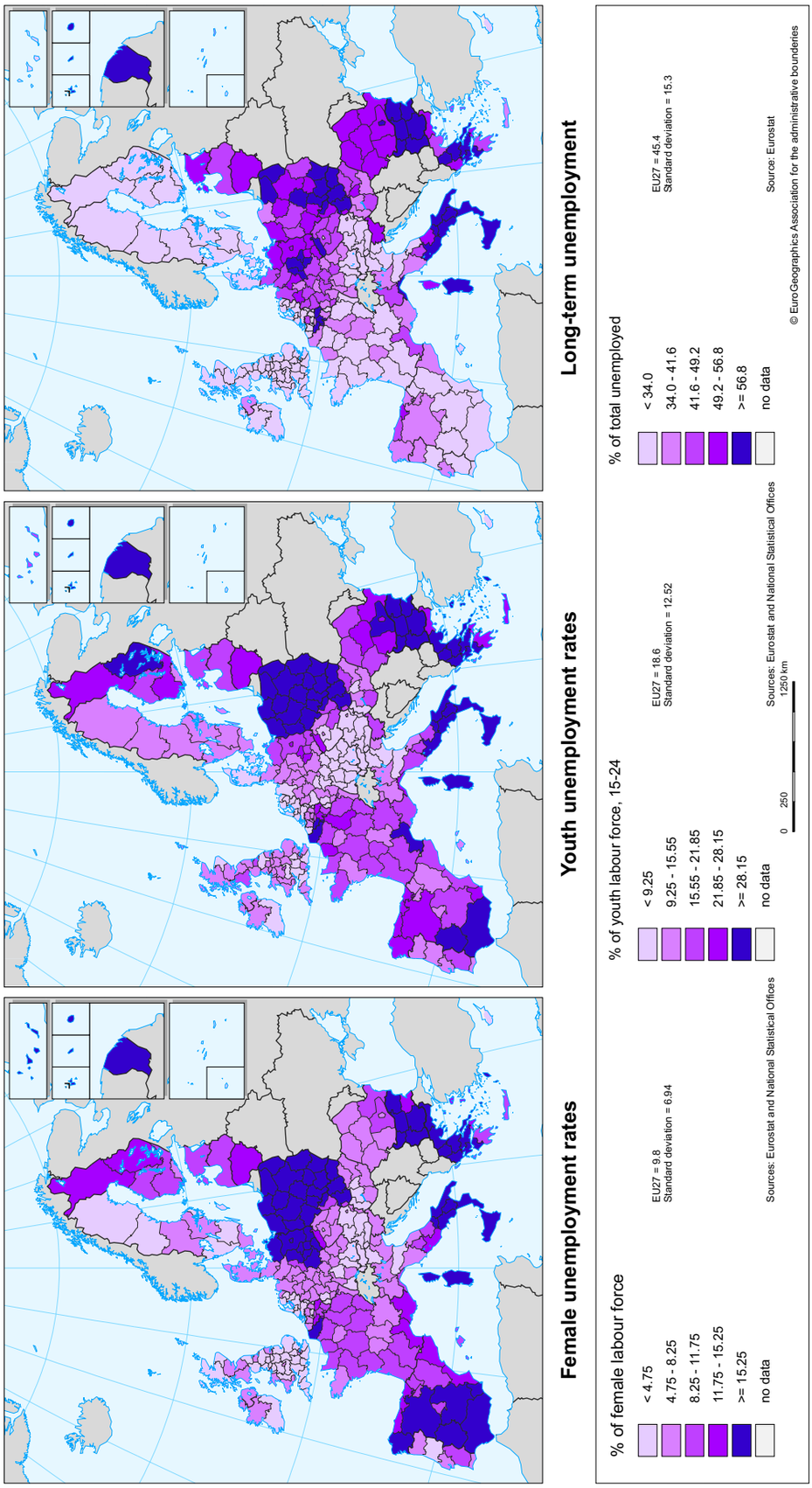
- < 4.75
- 4.75 - 7.65
- 7.65 - 10.55
- 10.55 - 13.45
- >= 13.45
- no data

EU27 = 9.1
Standard deviation = 5.86

Sources: Eurostat and National Statistical Offices

0 100 500 km

1.5 Unemployment, 2002



below the EU15 average. In Greece, however, the rate has remained above the average at 10%, which is much the same as in 1996, though it has fallen steadily since 1999 when it reached a peak of 12% (Table A1.5).

In Objective 1 regions elsewhere, unemployment was over 20% in 2002 in most of the new German Länder, reflecting a fall in employment since the mid-1990s, while in Italy, where job growth has been depressed, it was close to 20% in the Mezzogiorno, nearly three times higher than in the rest of the country (and almost 25% in Calabria) (Map 1.4). In southern Italy, moreover, the problem of joblessness is only partly revealed by the unemployment figures since a substantial number of people of working age, women especially, do not even join the labour market.

In regions where unemployment is high, it remains the case that young people and women are particularly affected and those becoming unemployed tend to be out of work for a long time (i.e. there is a positive relationship between the overall unemployment rate and the long-term rate — the relative number out of work for one year or more — Map 1.5).

Unemployment a major problem in the accession countries

The low employment rates in the accession countries which were noted above are reflected in high rates of unemployment. At the latest count, in September 2003, unemployment stood at 20% of the work force in Poland, 16% in Slovakia and 14% in Bulgaria, while in both Latvia and Lithuania, the rate was also well over 10%. By contrast, the rate was only just over 4% in Cyprus, as well as in Romania, lower than in any existing Member State except Luxembourg and the Netherlands.

At the regional level, unemployment was over 25% in four Polish regions in 2002, as well as in one Bulgarian region, and over 20% in another four, as well as in two Slovakian regions.

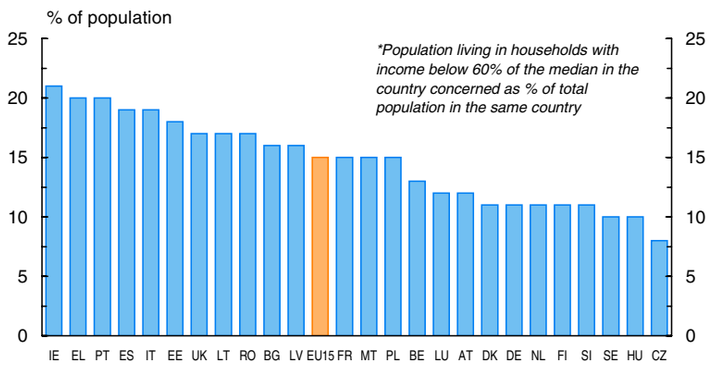
The risk of poverty varies between countries and household types

Although there are no measures of the number of people across the enlarged EU who live in poverty in an absolute sense, an indication can be gained of those whose income is low enough to put them at risk of being socially disadvantaged in a relative sense.

According to the latest data (for 2000), the proportion of the population at risk of poverty, defined in terms of those living in households with income below 60% of the national average after social transfers,[7] ranges from 21% in Ireland, and only slightly less in Greece and Portugal, to 10–11% in the Netherlands, Sweden, Germany, Denmark and Finland (Graph 1.9 and Table A1.6).

Poverty is closely linked to unemployment. Being in employment is by far the most effective way of avoiding the risk of poverty and social exclusion. Only 7% of the employed population in the EU had income below the poverty line in 2000, as against 38% of the unemployed and 25% of the inactive.

1.9 Population at risk of poverty*, 2000



LT, MT, SI: data are for 1999; CY, SK: no data available.
Source: Eurostat, ECHP, 2003 and national sources

However, even if those in employment are less exposed to the risk of poverty, they represent around a quarter of the people aged 16 and over in the EU in this position.

The risk of poverty is higher for particular household types in most countries, in particular for older people living alone and lone parents[8]. In the EU Member States taken together, some 35%, on average, of those living alone with dependent children — the vast majority of whom are women — and almost 30% of people of 65 and over living alone have income below the poverty line.

Wide variations exist across the Union as regards the nature, as well as the scale, of the problem of low income. In the southern countries, apart from Greece, the problem is related to having children, which is also the case in the Netherlands as well as in the UK for lone parents in particular. In the Nordic countries, it is mainly associated with living alone, while in Ireland and Portugal, it is a particular problem among those of 65 and over (Table A1.7).

The risk of poverty and social exclusion is also important in the new Member States. This risk threatens to increase if unemployment remains high.

The risk of poverty affects ethnic minorities in particular who tend to be disadvantaged on the labour market. In some cases, these face cumulative handicaps in terms of access to education, social services, housing and health care. Most accession countries have significant ethnic minorities. The size of the Roma community in the EU, for instance, will double with the accession of the 10 new Member States in 2004 and will double again with the accession of Bulgaria and Romania.

Methodological notes — Measuring changes in GDP per head over time

In previous Cohesion Reports, the extent of convergence of GDP per head has been assessed by taking successive estimates of this in different countries and regions measured in terms of purchasing power standards (PPS) in order to adjust for differences in the goods and services which a given unit of GDP is capable of purchasing. The adjustment for PPS is made annually in relation to the pattern of consumption and investment prevailing at the time. The fact that these patterns may change over time is a reason for being cautious about comparing levels of GDP per head between two different years. The problem is compounded by the fact that changes have been made over time in the method used for estimating relative price levels, partly because of ongoing efforts to improve the estimates produced. As a result of these changes, GDP in terms of PPS cannot legitimately be compared between years.

According to the EU Statistical Office (Eurostat), therefore, 'the years before 2000 …include a multitude of minor or major breaks in the time series, which negatively affect the comparability over time or even between countries within one given year' (Statistics in Focus, Theme 2, 56/2002). In consequence, while it is legitimate to compare estimates of GDP per head in PPS terms in a recent year across countries, it is problematic to compare these levels over time. The approach used here for assessing both national and regional convergence is to measure changes in GDP per head over time in real terms (ie at constant prices), which explicitly adjusts for price changes between years.

Measuring the regional economy

As described in the Second Cohesion Report, GDP per head, expressed in terms of purchasing power standards (PPS) to adjust for differences in price levels, is the primary indicator for assessing the development of economies, whether national or regional. It is used not just in the EU to measure disparities between regions and to identify those which warrant assistance from the Structural Funds, but by other international institutions (UN, World Bank, IMF, OECD and so on), national governments, central banks and research institutes for similar assessments of economic development.

As made clear in the Second Cohesion Report, it is not a perfect measure and has a number of weaknesses. These include, in particular, the problem of commuting (the fact that commuters may contribute to GDP produced in an economy or region in addition to the people living there but are not included in the 'heads' to which GDP is related) and the exclusion of transfers which may add to, or subtract from, income. They also include problems of adjusting for price level differences, which are not captured by exchange rates, and for environmental degradation as well as the depletion of exhaustible resources which are left out of account entirely. Nevertheless, given the data which at present exist and the conceptual difficulties which remain to be resolved, it remains, by common consent, the best measure available.

These weaknesses, however, continue, quite rightly, to prompt economists and statisticians to seek other indicators as well as ways of improving the existing measure. Two developments since the Second Cohesion Report are considered here: first, the construction of preliminary estimates of disposable income across EU regions by statisticians at Eurostat and, secondly, the efforts made to improve the PPS adjustment.

Regional disposable income

Estimates of disposable income for NUTS 2 regions have recently been published by Eurostat, the results of a preliminary exercise undertaken with the aim of comparing regions in terms of whether they are 'rich' or 'poor'[9]. The aim, therefore, is to measure the income available in different regions for those living there to dispose of. This is somewhat different from measuring GDP or the output produced, which is perhaps a better indicator of regional economic performance. As explained in the Second Cohesion report, therefore, 'a region which (has) a low level of production might well have a (relatively high) level of final income because of large social security transfers, but it would still be a less favoured region'. This is the reason why GDP is used by the EU to determine a region's need for structural assistance rather than some measure of income.

A further motivation for attempting to estimate disposable income was to overcome the commuting problem

which is a difficulty inherent in the regional statistics of GDP per head, though it is more of problem of the population data used to measure heads rather than of GDP as such. Since the focus of the exercise was on income rather than output, transfers to and from regions were also included in the measure.

In practical terms, as the Eurostat exercise makes clear, trying to measure disposable income gives rise to serious estimation problems given the data at present available. In particular, data for primary household income, which is a basic component of the indicator, do not as yet exist at NUTS 2 regional level for a number of countries. Data problems are particularly acute for the government sector and the company sector which with households make up the regional economy. In both cases, a lack of information on the way income varies between regions means that assumptions have to be made about this in order to generate overall estimates of disposable income. The assumptions adopted, that disposable income in both sectors is the same in relation to population in all regions, are the simplest ones to make but are unlikely to accord with reality. (For the government sector, the data presented on public expenditure in different regions in Part 2 of this report below indicate the significant regional variations which occur in practice.)

The results of the exercise, therefore, as acknowledged by Eurostat, need to be interpreted with caution, though they might be indicative of the differences in disposable income which exist between regions across the EU. While not a replacement for regional GDP per head, the estimates, could provide a useful complement to this, once they are more soundly based, especially as they allow for the distorting effects of commuting.

The PPS adjustment

As noted above, the PPS adjustment has been subject to change which means that the GDP per head figures expressed in these terms cannot be compared over time. While this is an inherent problem where expenditure patterns change between years, there is a further difficulty with the PPS adjustment applied to regional comparisons of GDP per head. This is that, at present, the adjustment is limited to correcting for differences in price levels between countries, whereas differences across regions within countries may be equally, if not more, important. Certain prices, therefore, especially for housing, vary markedly between regions in the same country, reflecting relative levels of prosperity, differences in market characteristics and so on. As such, taking account of regional price variations might well serve to reduce disparities in GDP in PPS terms between regions, though the extent to which this is the case must await the estimation of regional PPS figures. Despite the potential importance of this exercise, little progress has been made in developing such estimates since the publication of the Second Cohesion Report.

Changes in NUTS 2 regional classifications

In May, 2003 the European Parliament and the Council adopted a Regulation (EC) N° 1059/2003 on the establishment of a common classification of territorial units for statistics (NUTS) introducing changes in the classification of regions in Finland, Portugal, Germany, Spain and Italy, and specifying that 'the Member States concerned shall transmit to the Commission the time series for the new regional breakdown'. Data on GDP for 2001 in the regions concerned were published by Eurostat at the beginning of 2004, but other statistical indicators at regional level are still missing.

In the present report, data on the basis of new regional breakdown are included for GDP and population but data for the other regional indicators for which data are not yet available, such as for employment, are on the basis of the old breakdown.

Territorial cohesion

A central aim of the EU, as set out in the Treaty (Article 2) is 'to promote economic and social progress and a high level of employment and to achieve balanced and sustainable development, in particular through the creation of an area without internal frontiers, through the strengthening of economic and social cohesion and through the establishment of economic and monetary union...'. This implies that people should not be disadvantaged by wherever they happen to live or work in the Union. Territorial cohesion has therefore been included in the draft Constitution (Article 3), to complement the Union objectives on economic and social cohesion. Its importance is also acknowledged in Article 16 (Principles) in the Treaty which recognises that citizens should have access to essential services, basic infrastructure and knowledge by highlighting the significance of services of general economic interest for promoting social and territorial cohesion.

The concept of territorial cohesion extends beyond the notion of economic and social cohesion by both adding to this and reinforcing it. In policy terms, the objective is to help achieve a more balanced development by reducing existing disparities, avoiding territorial imbalances and by making both sectoral policies which have a spatial impact and regional policy more coherent. The concern is also to improve territorial integration and encourage cooperation between regions.

There are a number of aspects of territorial balance in the EU, which threaten the harmonious development of the Union economy in future years:

- at EU level, a high concentration of economic activity and population in the central area or pentagon (which stretches between North Yorkshire in England, Franche-Comté in France, Hamburg in northern Germany and Milan in the north of Italy), which was identified in the second Cohesion Report and which covers 18% of the EU15 land area while accounting for 41% of population, 48% of GDP and 75% of expenditure on R&D. Enlargement will only increase this degree of concentration by adding to the EU land area and population but increasing GDP relatively little;

- at national level, a persistence of pronounced imbalances between the main metropolitan areas and the rest of the country in terms of economic development, which is a particular feature of the accession countries;

- at regional level, a widening or, at least, the persistence of a number of territorial disparities beyond those measured by GDP or unemployment. In particular, economic development is accompanied by growing congestion and pollution and the persistence of social exclusion in the main conurbations whereas a number of rural areas are suffering from inadequate economic links with neighbouring small and medium-sized towns and their economies are often weakening as a result. Large urban areas are tending to sprawl outwards encroaching into the surrounding countryside as economic activity and their population increase, creating what have become known as 'rurban' areas, while rural areas where there are no towns of any size are experiencing falling population and a decline in the availability of basic services;

- within regions and cities, the development of pockets of poverty and social exclusion in areas with often only limited availability of essential services;

- in a number of specific areas constrained by their geographical features (islands, sparsely populated areas in the far north, and certain mountain areas), population is declining and ageing, while accessibility continues to be a problem and the environment remains fragile, threatened, for example, by regular fires, droughts and floods;

- in outermost areas, with a cumulation of natural and geographical handicaps (as recognised in Article 299.2 of the EU Treaty), the continuation of severe social and economic problems which are

difficult to tackle because of their remoteness, isolation, topological features, climate, small size of market and dependence on a small number of products.

These territorial disparities cannot be ignored, since apart from the serious difficulties in peripheral and outermost areas or the problems of congestion in certain central areas, they affect the overall competitiveness of the EU economy. Covering costs of congestion or treating the social consequences of disparities implies a sub-optimal allocation of resources, as well as a lower level of efficiency and economic competitiveness than could potentially be attained in the regions affected, whether they are attractive areas in the centre or deprived areas on the periphery. These problems can set in motion a cumulative process in which, for example, difficulties of accessing centres of research and innovation or ICT networks further reduce the economic development potential of regions which are already lagging.

To combat territorial disparities and achieve a more spatially balanced pattern of economic development requires some coordination of development policies if they are to be coherent and consistent with each other. It was for this reason that the European Council in Potsdam in 1999 defined the European Spatial Development Perspective.

Promoting balanced development

Territorial imbalances in the distribution of towns and cities

Urban systems are the engines of regional development and it is in regard to their geographical distribution across the EU that an imbalance between the centre and the periphery is most evident. An analysis of these systems, of their potential and the extent of cooperation between them, reveals the following tendencies[10]:

- growth is still occurring in the core parts of Europe and in capital cities where company headquarters, research activity and education and cultural facilities are concentrated (London, the large Dutch urban areas and north-west German cities are still recording significant increases in population). Over 70 cities or conurbations, 44 of which with more than 1 million people, provide all these major strategic functions and can be regarded as growth 'metropoles' of European importance. An arc stretching from London to Milan and passing through the conurbation consisting of cities along the Rhine (Essen and Cologne) is particularly important among these cities;

- in the accession countries, despite declining population, there is a significant growth in capital cities, particularly Budapest, Prague, Ljubljana and the capitals of the Baltic States. The only exception is Poland where there are five large metropolitan areas to rival Warsaw;

- the appearance of new tendencies involving less polarised development and the growth of a number of urban areas in peripheral parts of the EU, including:

  - an extension of the core towards the east with growth of cities such as Berlin, Munich and Vienna;

  - capital cities in Scandinavia, Stockholm and Helsinki, in particular, have become strong economically especially in new technology;

  - a number of urban areas in peripheral parts of the EU, such as Dublin, Athens and Lisbon, have also experienced significant growth in GDP per head over the past decade;

- a number of urban regions located outside the core seem to have a population and an economic potential strong enough to attract research activity and to link up over time with the main European, and even international, centres of decision-making. These appear to be capable in the future of stimulating the growth of peripheral areas and

Marked disparities between and within cities

The Urban II Audit, available at present for 189 cities in the EU15 (65 in the central pentagon and 124 in peripheral areas), enables three kinds of disparity to be analysed — those between cities in the centre and periphery, between large and medium-sized cities and between inner city areas. The main findings are as follows:

- lack of security is more marked in bigger cities than in medium-sized ones. In the UK, for example, the number of cases of violent assault is twice as high in large as in medium-sized cities and the number of murders three times higher. It is equally more marked in cities in the central part of the EU than in the periphery;
- pollution shows a clear centre-periphery pattern, with, for example, cities in the centre having 14 days of peak ozone levels a year as against less than one day a year for those in the periphery;
- unemployment seems to be related more to national factors than whether cities are in the centre or periphery or their size. The same is true of poverty (though the proportion below the poverty line averages 9% in the central areas and 16% in the peripheral ones). At the same time, there are wide disparities between different areas within cities, with, for example, a difference in the unemployment rate of 8 to 1 in Porto where the average rate is low and 5 to 1 in Marseilles where it is high.

of bringing about a better balance of economic development in the EU.

Some 40 such urban regions, situated outside the core 'pentagon' can be identified and categorised in terms of four criteria which indicate their strengths and weaknesses — their population size and its growth, their competitiveness, their communication links and their involvement in the knowledge economy. Lyon, for instance, is a good example of a city strong in terms of all four criteria, while Bilbao scores highly on one (knowledge) and Porto and Krakow have only an average score on the four taken together. Overall, these 40 urban regions showed a growth of GDP between 1995 and 2000 of 3.3% to 4.1% per year as against 3% for the growth metropoles and 4–5% for a number of peripheral urban regions which are developing rapidly, as noted below.

Analysis of cooperation networks between towns and cities indicates the existence of:

- a strong network of major 'metropoles' in the centre of Europe (in terms of trade, universities and communication links), including London, Paris, Frankfurt, Amsterdam, Milan and, in the near future, Berlin;
- outside of this group, a lack of strategic cooperation between towns and cities and in the accession countries, an absence of networks of small and medium-sized towns, except in the Czech Republic and Slovenia.

Intra-regional imbalances

The future of rural areas is increasingly tied up with the development of the rural economy as a whole and, in some cases, requires a real change in the economic and social base, in physical infrastructure, access to ICT and other new technologies, the growth of new sources of employment (such as in SMEs or rural tourism) and the maintenance of public services. Such a policy needs to be integrated into a regional strategy involving the development of economic relations and cooperation with urban areas.

The challenge facing rural areas varies according to where they are located in relation to the cities identified above: It is possible to distinguish in broad terms three types of rural area according to the extent of their integration into the rest of the economy and their links with large centres of activity:

- areas integrated into the global economy which are experiencing economic growth and

have increasing population. They are situated in general close to an urban centre, employment is in manufacturing and services, but most of the land is used for agriculture (in France, for example, a third of farms are situated in such areas). The high population growth and pressure from urbanisation mean there is a need for better management of land use to avoid environmental degradation and conflicting usage. Despite the growing importance, urban policies in Member States, except in the UK and Sweden, tend not to take sufficient account of relations between urban and rural areas;

- intermediate rural areas relatively far from urban centres but with good transport links and reasonably well developed infrastructure. They tend to have stable population and to be in the process of diversifying economically. In a number of Member States, large farms are situated in these areas. The need is to maintain their agricultural potential, increase the pace of economic diversification and strengthen relations with small and medium-sized towns;

- isolated rural areas, sparsely populated and often situated in peripheral areas, far from urban centres and main transport networks. Their isolation is often due to their topographical features (such as a mountain range) and they tend to have an ageing population, poor infrastructure endowment, a low level of basic services and income per head and a poorly qualified work force and to be not well integrated into the global economy. Their population is generally dependent on agriculture to a large extent and in decline. They are located largely in south-west Portugal, the north and north-east of Spain, central France, Scotland, Finland and Sweden. The challenge is one of revitalisation and to maintain economic activity and the availability of adequate public services. And there is a need to develop links with towns even if they are relatively far away.

Regions with geographical handicaps

As noted above and highlighted in the Second Cohesion Report, regions with specific and permanent geographical features which constrain their development, such as the most remote regions, islands, mountain regions and sparsely populated areas in the far north of Europe, have special problems of accessibility and integration with the rest of the EU.

The seven outermost regions of the EU encompass 25 islands plus Guyane and together have a population of around 4 million. They suffer from an accumulation of natural handicaps, which make it difficult to improve economic and social conditions, not least their remoteness both from economic and administrative centres and the nearest mainland. The furthest away, Réunion, is over 9,000 kms from Paris and 1,700 kms from the coast of Africa, while the closest to land, the Canarias, are still 250 kms off the coast. Their remoteness is compounded by their natural features (many are archipelagos, small in terms of land area and population), difficult terrain and climate.

Excluding the Canarias (which accounts for almost 45% of the total population of the 7 outermost regions and where GDP per head was only 6% or so below the Spanish average), GDP per head is only 57% of the EU15 average and Réunion, Guyane and the Açores feature among the 10 least prosperous regions. All suffer from a combination of lagging economic development, excessive reliance on agriculture and high unemployment, but while population is still increasing markedly in the French territories, it is declining in Madeira and Açores, which have a high rate of outward migration. The Canarias, moreover, are experiencing pressure from population growth, have an overdependence on tourism and a lack of diversification into other activities.

In addition to these, there are 284 populated islands in the EU15, with 9.4 million people (3% of the EU15 total) and a land area of 95,000 square kms (3% of the EU15 total). The economic development of these is permanently constrained by their relative isolation and

the added costs which this entails. Moreover, in many cases they have a mountainous terrain and/or are part of lagging peripheral regions, such as those in the Italian Mezzogiorno, Greece or Scotland. Many are also part of an archipelago which, in most cases, tends to act as a further constraint insofar as transport connections with the mainland and public services are located on the main island.

Islands are distributed fairly evenly between the Atlantic, Baltic and Mediterranean, though the 119 islands in the last account for 95% of their total population, with 85% living on Sicilia, Sardegna, the Illes Balears, Kriti and Corse. The islands elsewhere, by contrast, tend to be smaller and more sparsely populated. The only ones of any size are the Swedish island of Gotland, the Scottish islands of Lewis and Harris and the main island of Orkney. Their average GDP per head in 2001 was 72% of the EU15 average and in most cases (the Illes Balears are the main exception) lower than in other parts of their respective countries. They tend to be vulnerable in economic terms because of the concentration of activity in two broad sectors — agriculture and fishing and tourism.

Mountain areas are spread across the EU15, covering 40% of the land area and having a population of some 67 million, or around 18% of the EU15 area. After enlargement to EU25, they will account for much the same proportion of population but a slightly smaller proportion of the land area since in the new Member States population density in mountain areas is slightly higher than in other regions. Mountain areas are more dependent on agriculture than other areas particularly in the accession countries, but also in the EU15. Although a number of mountainous areas are located close to economic centres and large markets, because of the terrain, transport costs tend to be high and many agricultural activities unsuitable.

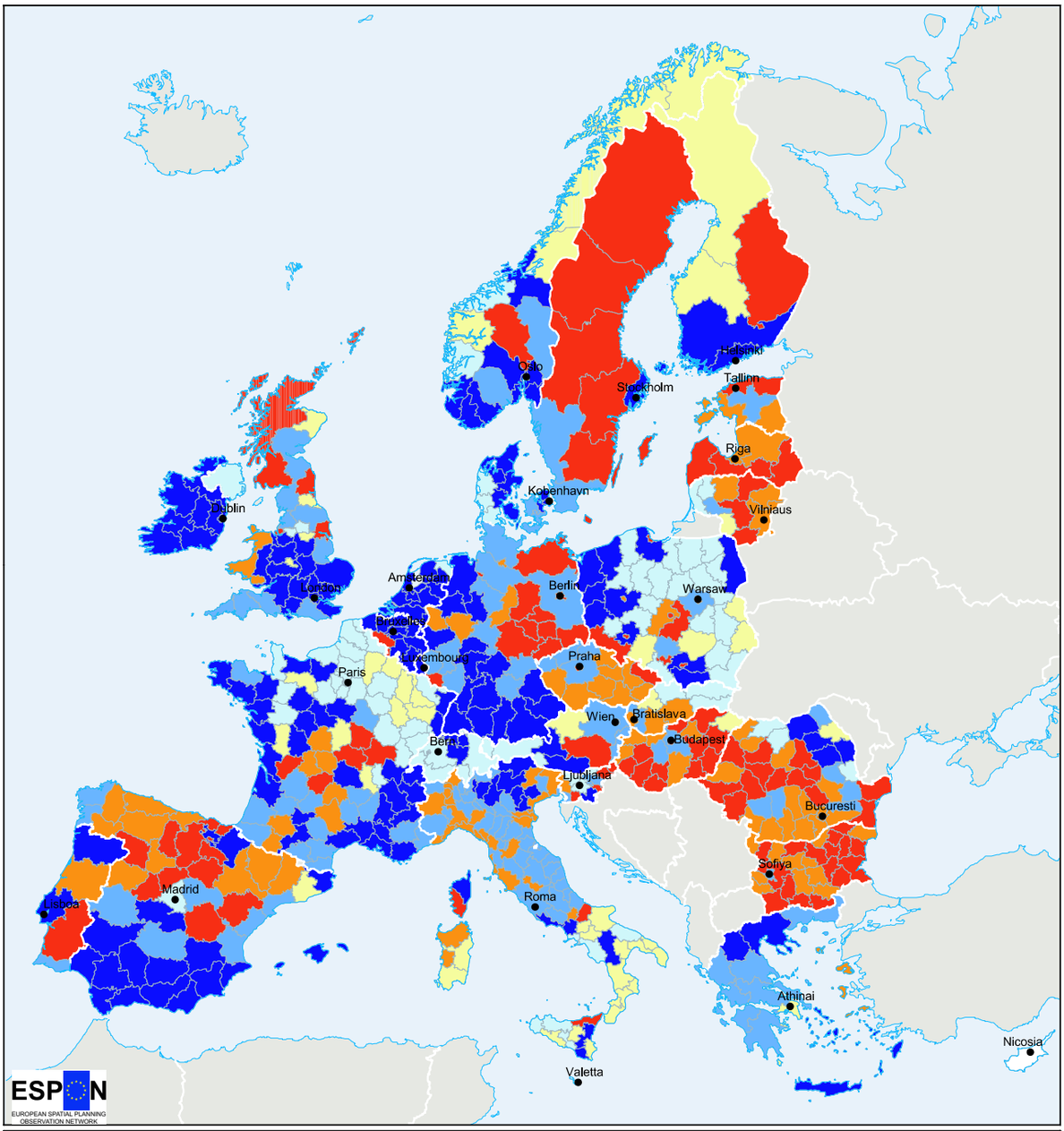
Unemployment tends to be higher in mountain areas which are the most peripheral, such as the northern parts of the Nordic countries, Scotland, Northern Ireland and the UK, the southern mountain ranges of Spain, Corse, southern Italy and Sicilia. Conversely unemployment is for the most part relatively low in mountain areas near to major industrial urban centres or which have such centres within their borders, such as the areas in Wales, the northern Apennines of Italy and along the northern and southern edges of the Alps in France, Germany and Italy. There are, however, exceptions, such as the Ardennes in Belgium and the Ore mountains in the Czech Republic and Germany.

Though further research is required, the conclusions from the studies which have been carried out suggest that economic diversification from agriculture to services tends to happen at a faster pace in lowland than in mountainous regions, that the existence of large cities in mountain areas or nearby give an important stimulus to industrial activity (or, alternatively, that the wealth of resources in mountain areas can lead to the development of large cities in their vicinity), and that service employment tends to be high in the more prosperous mountain areas, mainly in tourism (such as in the Alps) or in public services in sparsely populated areas (especially in Sweden and Finland).

Since Finland and Sweden joined in the EU in 1994, sparsely populated areas have become an issue for cohesion policy. Parts of the sub-arctic and arctic in these two countries, have an average population density of under 5 inhabitants per square km, well below the level anywhere else in the Union, except in the Highlands and Islands of Scotland[11].

The average GDP per head in these areas is 87% of the EU average, significantly lower than in other parts of their respective countries. Unemployment also tends to be above the national average. In general, a large proportion of employment is in services, especially public services, in Sweden, while in Finland, more people work in agriculture and industry, especially wood, pulp and paper.

In the Swedish regions, in particular, GDP growth has been depressed since the mid-1990s (the growth rate being only around half the EU average) and employment has not recovered from the substantial job losses suffered during the recession years of the early



1.6 Change in population, 1996-1999: main components

Population increase with
- positive migratory balance and positive natural balance
- positive migratory balance and negative natural balance
- negative migratory balance and positive natural balance

Population decrease with
- negative migratory balance and positive natural balance
- positive migratory balance and negative natural balance
- negative migratory balance and negative natural balance

no data

AT, CH, DE, FI, EL, MT, NL, PT, SE, UK: NUTS2

Source: ESPON Data Base
Origin of data:
EU15 and N12: Eurostat;
Norway and Switzerland: National Statistical Offices

This map does not necessarily reflect the opinion of the ESPON Monitoring Committee

0 100 500 km

1990s. Population is generally declining, at a rate which elsewhere is usually found only in regions with serious structural problems. During the 1990s, Kainnu and Lappland in Finland lost an average of 1% of their population annually while in Norrbotten in Sweden, population fell by 0.6% a year[12] (Table A1.8).

Common problems of areas with geographical handicaps

All of these regions, in whichever part of the EU they are located, have common problems of accessibility and of remoteness from major markets which tend to add to both travel and transportation costs and constrain their economic development. At the same time, the construction of infrastructure of all kinds and the provision of health care, education and other basic services is usually also more costly, because of the nature of the terrain and the remoteness of the location, and more difficult to justify because of the small numbers of people being served. In many cases, the population, or size of the market, is below the 'critical mass' required to warrant investment in economic terms. This problem is compounded by an ageing and declining population as young people leave (Map 1.6).

For islands, there seems to be a critical size of population of around 4–5,000 inhabitants, above which numbers are usually expanding, there is a relatively large proportion of young people and education and health care facilities are good. Below this level, net emigration, population ageing and inadequate facilities are the norm.

In mountain areas in the EU15, population density (51 inhabitants per square km) is less than half the EU average, though in immediately surrounding areas it tends to be much higher, reflecting their relative attractiveness as places to live and work. On average, there is an ongoing decline in population, but a number of areas have begun to attract people and new businesses. In the accession countries, the picture is similar, though population density in such areas is almost twice that in the EU15 and only slightly below the average elsewhere.

Accessibility of mountain areas

As part of a recent study of mountain areas, an index was constructed to classify these according to their accessibility, taking account of their distance by air from national capitals and other cities and from universities and health care facilities, as well as of the density of transport networks (roads, railways and airports).

Mountain areas with 'very good' or 'good' accessibility are located, for example, in the north of England, Sicilia and Slovakia. They also include the Alps, the Carpathians, the Sudetes, all the German areas and the Ardennes, as well as three Spanish and two Portuguese areas. Areas with a 'fair' accessibility encircle the first two groups. These include areas in Greece, Spain, Wales and Finland and the 'Massif Central' in France. Areas with 'poor' accessibility are found north of the third group, in particular, Highlands and Islands in Scotland and most Swedish and Finnish mountain areas.

More equal access to Services of General Economic Interest

Despite the difficulties of some regions, equality of access to basic facilities, essential services and knowledge — to what are termed 'Services of General Economic Interest' — for everyone, wherever they happen to live, is a key condition for territorial cohesion.

Access to an efficient transport system with adequate links to the core area of the Union is the first determinant of a region's peripherality. Regions with better access to markets are likely to be more productive and more competitive than others. At present, the road network tends to be much more developed in the central parts of the EU than in peripheral regions and while construction of motorways in recent years has increased, the accessibility by road for the latter to central areas where markets are concentrated remains very much less than elsewhere. It is particularly poor in most Objective 1 areas in Portugal, Greece, the west of Ireland and the Baltic States (Map A1.5).

The same is even more the case as regards rail since the network in general has not even kept pace with road improvements in most peripheral regions. Romania, Bulgaria, south and central Italy and the north of Denmark as well as Greece and parts of Spain away from the Madrid-Seville TGV have especially poor accessibility to more central areas of the EU by rail (Map A1.6).

Accessibility to central regions by air is significantly better because of the presence of international airports even in the most remote areas, though the improvement in connectivity through this means needs to be put into perspective given the small amount of goods which are generally transported by air (Map A1.7).

Although the construction of the trans-European networks will improve accessibility, particularly in the accession countries — Bulgaria and Romania, most especially — the effect will vary considerably between different regions on the periphery depending on how well they are connected to the main routes, which depends in turn on the state of secondary networks.

Access to new technologies, especially ICT, is particularly important for peripheral regions and those with geographical handicaps. This is not only because they serve to reduce the significance of distance and the time required to reach central areas of the EU, but, more critically, because any limitation on their availability is almost certain to damage their development prospects and deter businesses from locating there.

Development priorities

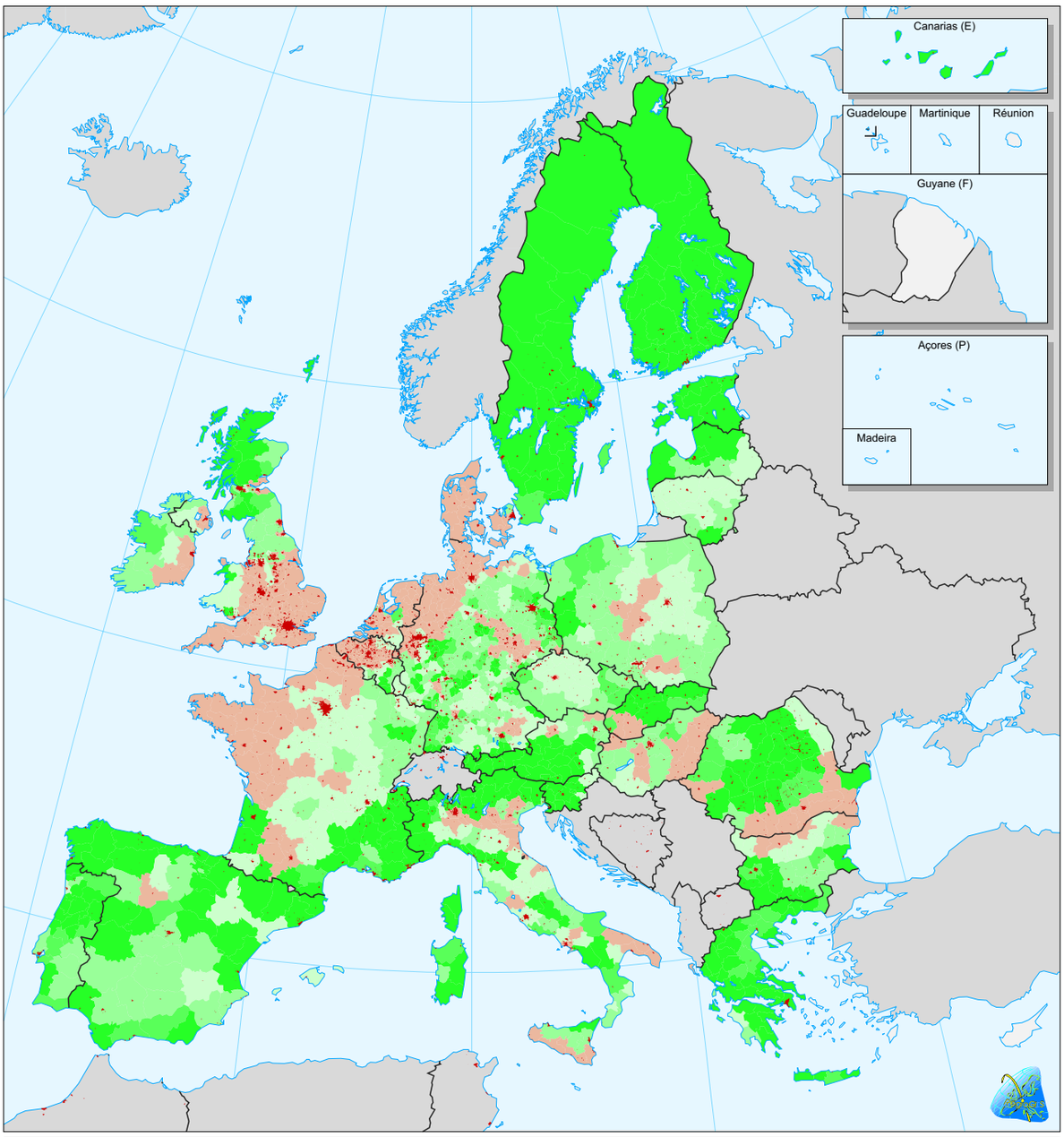
Although economic and social conditions vary greatly in regions with geographical handicaps, they typically are less prosperous and have higher unemployment than the country in which they are located or, in the case, of the outermost regions, to which they belong. Nevertheless, the latter regions apart, both GDP per head and employment are inevitably influenced by the economic performance of the national economy of which they form part.

Geographical handicaps do not always mean unfavourable economic circumstances. Indeed, as a number of examples demonstrate, they can potentially be transformed into positive assets which can open up new paths of development. Additionally, many of these regions form an important part of the EU's natural heritage and are the location for many leisure, cultural and other activities. For this reason alone, it is important that they are preserved and remain populated, which means that it is important in turn to improve their accessibility and to maintain or develop essential services.

It is equally important that the economic development path they follow respects their natural heritage and does not endanger the very geographical features which are, or can be, a key aspect of their comparative advantage as locations not only for people to live but also for businesses to operate. As the knowledge-based economy develops, therefore, proximity to raw materials or even to large markets is becoming a less significant determinant of location and the attractiveness of natural and physical surroundings of increasing importance — allied, of course, to the availability of the essential services and facilities described above.

The economic development of these sensitive areas, therefore, even more than elsewhere, must take account of the need to safeguard the environment, which means not only integrating this priority into the investment decision-making process, but also, wherever possible, searching for options which both improve the environment and strengthen regional competitiveness. Examples of such 'win-win' options are the clean-up of areas previously damaged by industrial activity and their reconversion as sites for new business development, the modernisation of rail links to improve accessibility instead of the construction of new motorways, or the development of clean, renewable energy sources to replace coal or oil-fired electricity generating plants which both deplete scarce resources and pollute the atmosphere.

Although such 'win-win' options are not always possible to find, a central tenet of development policy in



1.7 Territorial diversity – degree of fragmentation of natural areas

- less than 20% of natural areas
- between 20% and 50% of natural areas; highly fragmented
- between 20% and 50% of natural areas; moderatelyly fragmented
- between 20% and 50% of natural areas; low fragmentation
- more than 50% of natural areas
- built-up areas
- no data

Natural areas = all areas (NUTS3 level) excluding built-up areas and agricultural areas.

Source: CORINE Landcover

0 100 500 km

both sensitive areas and elsewhere should, nevertheless, be to follow strategies which minimise any damage to the environment in order to ensure that they are sustainable over the long-term and do not simply represent a short-term means of stimulating growth.

Environmental problems are particularly acute across the EU both in areas where there is a high concentration of population, and therefore economic activity of various kinds, and in areas where there is pressure on natural resources from agriculture especially but also from mining and similar activities. These areas are by no means evenly distributed across the EU but are concentrated in particular places (Map 1.7). The need in these areas is to clean up the environment and to prevent any further damage. But it is no less important to prevent any further deterioration of the environment in natural or semi-natural areas, where human activity is progressively encroaching or which are being abandoned and, becoming either increasingly fragmented or lacking protection for their natural resources. These aims, in consequence, need to be an integral part of economic development strategy across the EU to ensure that development is sustainable.

Factors determining growth, employment and competitiveness

In March 2000, at the Lisbon Summit, the European Union set itself the goal of becoming the most competitive and dynamic knowledge-based economy in the world, capable of sustained and sustainable economic growth with more and better jobs and closer social cohesion. In so doing, it has identified a number of priorities:

- to give priority to innovation and enterprise, notably by creating closer links between research institutes and industry, developing conditions favourable to R&D, improving access to finance and know-how and encouraging new business ventures;

- to ensure full employment, by emphasising the need to open up employment opportunities, to increase productivity and quality at work and to promote lifelong learning;

- to ensure an inclusive labour market in which unemployment is reduced and social and regional disparities in access to employment are narrowed;

- to 'connect' Europe, especially through closer integration and by improving transport, telecommunications and energy networks;

- to protect the environment, the more so since it stimulates innovation, and to introduce new technologies, for example, in energy and transport.

European cohesion policy makes a major contribution to these objectives, especially in those regions where there is unused economic and employment potential which can be realised through targeted cohesion policy measures, so adding to the growth of the EU economy as a whole.

From a policy perspective, for regional development to be sustained requires favourable conditions being established at the national level, in particular a macroeconomic environment conducive to growth, employment and stability and a tax and regulatory system which encourages business and job creation.

At the regional level, two complimentary sets of conditions need to be satisfied. The first is the existence of a suitable endowment of both basic infrastructure (in the form of efficient transport, telecommunications and energy networks, good water supplies and environmental facilities and so on) and a labour force with appropriate levels of skills and training. A strengthening of both physical and human capital, together with improvements in institutional support facilities and the administrative framework in place, is particularly important in Objective 1 regions and the accession countries where both at present are seriously deficient.

The second set of conditions, which directly relates to the factors of regional competitiveness which are

important in the knowledge-based economy, is that innovation should be accorded high priority, that information and communication technologies (ICT) should be widely accessible and used effectively and that development should be sustainable in environmental terms. This set of conditions largely relates to 'intangible' factors which are more directly related to business competitiveness than the first set. They include, *inter alia*, the capacity of a regional economy to generate, diffuse and utilise knowledge and so maintain an effective regional innovation system; a business culture which encourages entrepreneurship; and the existence of cooperation networks and clusters of particular activities.

These two sets of conditions are interrelated. Both need to be integrated to varying degrees into a long-term development strategy with clearly defined and agreed goals and with a political commitment to sustaining its implementation. The precise focus and the mix of factors which are targeted will depend on the starting position, the characteristics of the region concerned, the prevailing circumstances, the development path being followed and so on. These will necessarily need to change over time as development takes place and circumstances alter. There is, therefore, neither a unique nor fixed recipe for successful regional development. Each region has to find the right policy mix for its own development path given its particular economic, social, cultural and institutional features.

For both sets of conditions, public intervention can be justified by market failure. This is clear in the case of human capital or transport and other infrastructure, which are in the nature of public goods, where investment has social as well as financial effects and where the returns cannot all be easily, or economically, captured by those making the investment (such as by employers investing in the training of their employees). But it also applies to technological know-how, which equally has some of the features of a public good, insofar as the costs of making it available to many users are low compared to the cost of its development. Accordingly, since producers of knowledge (of new techniques and so on) cannot capture all the benefits generated by the innovation concerned, there is a tendency for under-investment to occur.

A vital role of EU cohesion policy is to help regions, specially the less favoured, to consolidate and develop their economic and employment potential, in line with their inherent comparative advantages. In this sense, developing regional competitiveness depends on modernising and diversifying the productive structure once a sufficient endowment of physical infrastructure and human capital is attained. This means, *inter alia*, encouraging the development of knowledge-based economic activities and innovation.

There are two final points to emphasise. The first is the critical importance for regional development of human capital and the institutional and administrative capacity of regions, since this determines the support for business and the nature and extent of both public-private partnership and cooperation between all those involved in the development process. This point is expanded below.

The second, as emphasised above, is the equally critical importance of taking explicit account of the need to protect the environment if the development path being followed is to be sustainable. This need cuts across all of the measures implemented to further development, but it applies, in particular, to investment in physical infrastructure where the potential conflict between improving endowment, especially of transport networks, and safeguarding the environment is most acute.

The concern in the rest of this part of the report is to examine the extent of disparities in both sets of conditions described above across an enlarged EU.

Transport infrastructure

An efficient transport system is a necessary condition for regional economic development, though improvements in transport alone are unlikely to be sufficient to ensure growth, in part because the increased access they provide to other markets is mirrored in the greater

ease which producers elsewhere are able to meet local demand.

Across the EU15 as a whole, both freight and passenger transport increased significantly over the past decade, freight (measured by ton-kilometres) by almost a third, around half as high again as the growth of GDP, passenger (passengers kilometres) by around 16%.

Transport flows

The car is the predominant means of passenger travel. In 2000, 78% of all journeys made (in terms of total kilometres travelled) in the EU15 were by car. However, while this is up on 1970, when the figure was 74%, it is slightly down on the 1990 figure, as is the proportion of journeys made by bus and coach, which fell to under 9% of this total. The counterpart is an increase in air travel, though this still accounts for only 6% of total passenger travel. Travel by rail accounts for much the same proportion, only just over 6% of the total, almost unchanged since 1990, but down from over 10% in 1970.

The large increase in freight transport (excluding by sea) over the 1990s, of 32%, was predominantly due to road, which registered an increase of 38%. Around 75% of total freight now goes by road, while only 14% goes by rail, a figure which has fallen continuously from 30% in 1970 and 18% in 1990.

In all the Cohesion countries, road accounts for a larger proportion of goods transported than in the rest of the EU, the figure ranging from 85% in Spain to 98% in Greece (although it should be noted that the figures are similar in Italy and the UK). Moreover, the transportation of goods by road has risen at a faster rate in these countries than in the rest of the EU, in part reflecting the higher growth of GDP, but also the lack of an effective alternative, despite the large amounts of investment in the transport network from the Structural Funds.

In the accession countries, freight transport has declined markedly over the transition period in Romania and Bulgaria, reflecting the fall in GDP and restructuring of economic activity away from heavy industry, as well as in Slovakia and Slovenia if less so. In most other countries, it has increased, especially in Latvia and Estonia.

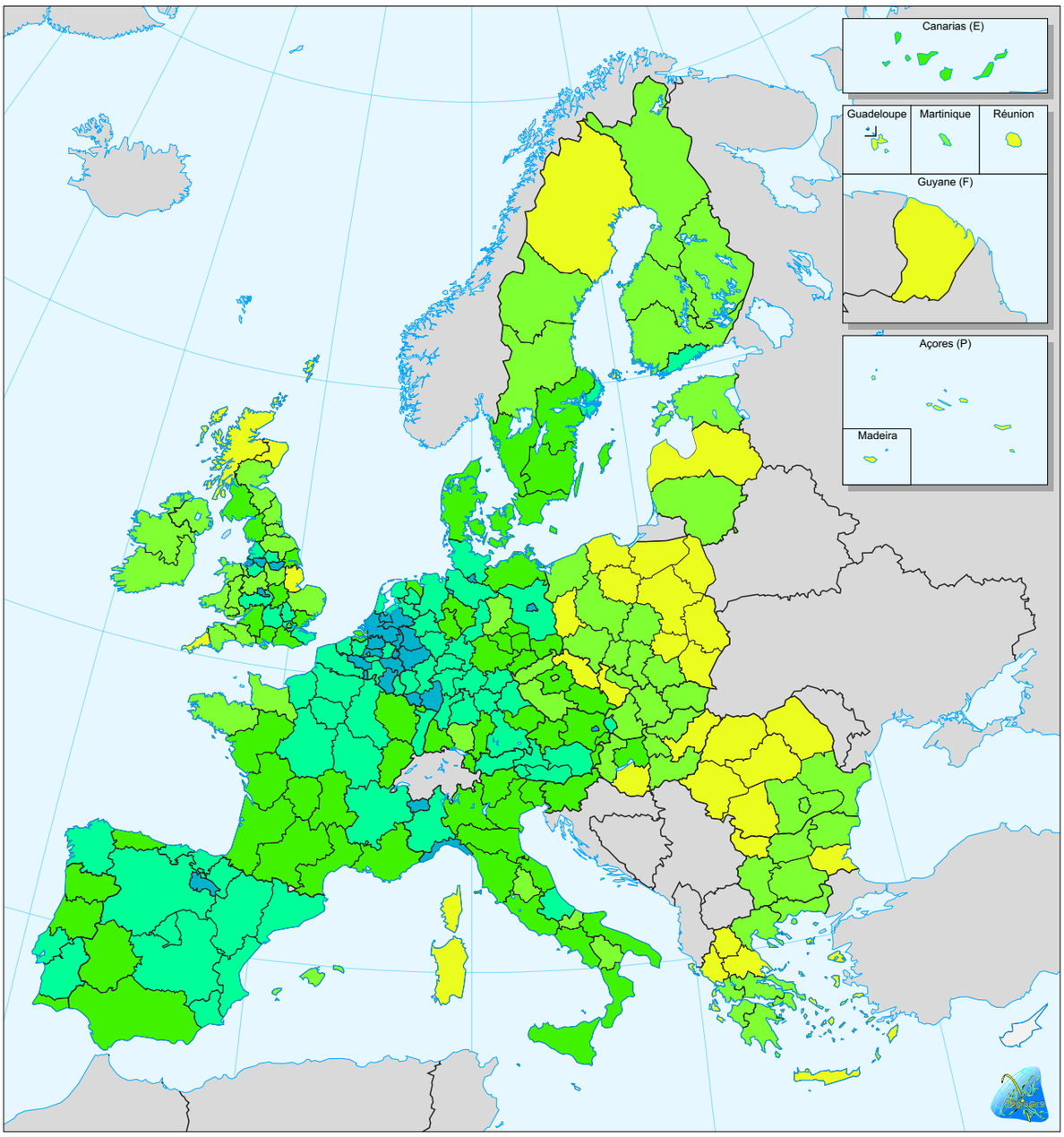
Nevertheless, the overall amount of freight transported in the accession countries is only half the level in the EU15 in relation to GDP.

In 2000, almost half of all freight transported in the accession countries went by road, while 38% went by rail, considerably more than in the present EU. In Bulgaria and the Czech Republic, however, the proportion of goods transported by road is close to the EU average, whereas in the Baltic States and Slovakia, it is only around a third or less.

But the relative shares are changing rapidly, freight shifting from rail to road. Indeed, only four years before 2000, the proportion of freight going by rail was much the same as that going by road. How far this continues to be the case in the future is dependent not only on the pace of economic growth, but also on its composition — the extent to which the demand for services increases relative to that for goods — and on the availability of effective alternative means of transport — rail or waterways.

There are no comparable data on passenger transport in the accession countries, though some indication of the growth of road use can be gained from the level of car ownership and the number of buses relative to population. Between 1996 and 2000, the number of cars in the accession countries taken together increased by over 20% in relation to population, with increases of over 50% in Latvia and Lithuania and over 30% in Romania. This, however, was only slightly more than the rise in the EU. In 2000, car ownership in relation to population, therefore, was still only just over half the average in the EU, suggesting substantial growth in future years as income rises.

At the same time, the relationship between income per head and car ownership is dependent on other factors



1.8 Density of motorways, 2001

Index, kms of motorways relative to land area and population

- 0
- 0 - 75
- 75 - 150
- 150 - 250
- > 250
- no data

EU15 = 100

LT, LV, EE: NUTS0

Source: Eurostat

0 100 500 km

such as the state of public transport and the pattern of settlements. In Portugal, therefore, the stock of cars is above the EU average and has risen particularly rapidly in recent years. In Italy, it is higher than anywhere else in the Union, while in Denmark, it is well below average and much the same as in the Czech Republic. Accordingly, how much car ownership, and by implication the use of cars, increases in the accession countries in future years is affected not only by income but by policy decisions made as regards the development of the transport system.

Networks

Roads

Comparisons of the endowment of road or rail infrastructure between countries need to be treated with caution because of differences in classification methods.

While the total length of the road network in the EU15 has remained broadly unchanged since 1991, the length of motorways has increased by 27%. Many of the new motorways have been constructed in the Cohesion countries, especially Portugal and Spain.

Nevertheless, the density of the road network as a whole[13] in Spain and Greece remains less than half the EU15 average, and in Portugal, it is also below the average, if only slightly. In Ireland, by contrast, it is well above average.

In Objective 1 regions taken together, the density has remained at around two-thirds of the EU15 average. On the other hand, the density of the motorway network in Cohesion countries increased from around 80% of the EU15 average in 1991 to 10% above average in 2001. This increase, however, was predominantly concentrated in Spain and Portugal, and density remains very much below the average in Greece and Ireland. In Objective 1 regions as a whole, the density of the motorway network was around 80% of the EU15 average in 2001, an increase from around two-thirds of the average in 1991 (Map 1.8).

In the accession countries, road density tends to be lower than in the EU15 and the density of motorways much lower still. Motorway density is around six times higher in the EU15 than in the accession countries taken together, largely reflecting the very few motorways in the larger countries in terms of land area. In Poland, therefore, there were still only around 400 kms of motorway in 2001, less than in Lithuania or Slovenia (435 kms), and in Romania, just 113 kms. In Estonia, there were less than 100 kms and in Latvia, none at all. Even in the Czech Republic, there were only just over 500 kms of motorway and in Hungary, around 450.

Although the construction of new roads is occurring at a relatively rapid pace in some countries — the length of motorways in Poland increased by over 50% in the three years 1998 to 2001 — these tend to be concentrated in a few areas, either around capital cities or on transit routes to the west. In Poland, therefore, around 75% of motorways are located in just three regions — Dolnoslaskie, bordering Germany, Opolskie, bordering Dolnoslaskie and the Czech Republic, and Mazowieckie, where Warsaw is situated. In the Czech Republic, there is a similar concentration in Stredni-Cechy around Prague and in Jihovychod in the south, bordering Austria and Slovakia. In Romania, virtually all the motorways are in the vicinity of Bucharest.

At the same time, the state of roads other than motorways is generally poor. Almost all roads are at best two-way and have invariably suffered because of a lack of maintenance over many years, before and after the transition process began.

This may help to explain the alarming figures for road deaths, which, in 2001, were significantly greater, per million cars, than in most EU Member States. In Latvia the figure was almost 900 deaths per million cars, in Lithuania and Poland, over 500, and in Hungary, Estonia, Bulgaria and Slovakia, only slightly less as compared with just over 300 in Spain, Portugal and Ireland and only around 150 in the UK. (There are no data for Greece or Italy.) On the other hand, the figures are similar to those experienced in some Objective 1

regions, particularly in Spain, where in Castilla y León and Castilla-la Mancha, road deaths were over 600 per million cars and in Extremadura, over 450.

Rail infrastructure

The total length of railway line in the EU15 is around 3% less than in 1991, as lines have been closed, and 10% less than in 1970. In the 4 Cohesion countries taken together, the density of the rail network (ie in relation to surface area and population) is only around 55% of the EU average, though higher in Ireland (80% of the average) than in the other three. For Objective 1 regions as a whole, rail density is some 75% of the EU15 average and little changed since 1991.

Some modernisation of the rail network has occurred over the past decade through the electrification of more lines (from 40% of the total in 1991 to 47% in 2001), but progress in converting single track to double has been limited (from 39% to 41%). The changes have been very similar in Cohesion countries and Objective 1 regions as in the rest of the EU, so that the gap between the former and latter remains. On average, around 40% of lines were electrified in both Cohesion countries and Objective 1 regions in 2001; only 24% of lines were double track in Cohesion countries and only just over 13% in Objective 1 regions. The situation, however, varies markedly between the Cohesion countries, In Greece, no lines at all are electrified and in Ireland, only around 2%, while in Portugal, the proportion doubled between 1991 to 2001 to over 30%

The overall standard of the rail network in the accession countries is poor and reflects decades of low investment. The proportion of electrified and double-track lines is below the EU average, though similar to that in the Cohesion countries and higher than in Objective 1 regions.

The rail network is in general technically obsolete, rail loading capacity is inadequate, a large proportion of the tracks are old and damaged, the gauge of track varies between different places as do power supply systems, making interoperability difficult. As a consequence, the maximum speeds allowed are typically in the range of 90–110 kms per hour and can be as low as 40–60 kms per hour on large stretches of the main lines.

Already, the growth of cars is outpacing improvement in the road network and leading to increasing congestion and environmental pollution. The dilemma facing policy makers is that the improvements in the road network which are undoubtedly required will tend further to encourage this growth. They are also likely to take resources away from equally necessary improvements in railways and public transport, which could reduce the shift towards cars and, accordingly, reduce the environmental problems likely to be caused by this.

Although the use of trains by both passengers and freight has declined as road use has grown, it remains substantially greater than in the EU. The question is for how long. The construction of new railway lines or the improvement of existing ones is a key part of the trans-European networks now under construction or being planned. In the accession countries, however, the emphasis, understandably seems to be on building new roads. At the same time, the need for improvements in the rail network in these countries extends well beyond establishing new and better links with existing EU Member States.

Recent forecasts suggest that freight transported by road will be 67% more in 2020 in EU15 than in 2000. Forecasts for the accession countries are for an increase of double this. If GDP in these countries, moreover, grows more rapidly than in current Member States, which is essential for convergence, road freight traffic could increase by even more than this.

Short sea shipping and inland waterways

Given the expected growth of road traffic in the coming years, and the greater congestion which is likely to result, encouraging more use of short sea shipping and inland waterways seems an attractive option,

especially since they generate much less pollution, are far safer and use less energy.

In 2000, some 28% of internal EU15 trade went by sea. Over the past decade, total cargo traffic at European ports, including to third countries, has grown by over 20% and container traffic has more than doubled. Container ports in the Mediterranean have experienced higher growth than northern ports and in 2000, 3 of the 8 largest container ports in the EU were located there (Gioia Tauro, Algeciras, Genova).

The development of short sea shipping in the accession countries, seven of which have coastlines, could help revitalise ports in peripheral regions and assist their economic development as well as easing transport problems, though for this to occur, there is also a need to improve access to these ports.

Inland waterways carry some 4% of freight transported in the EU15. Despite an increase in their use, their share of the total has fallen over the past 10 years. Their importance, however, varies considerably across the Union. While they carry substantial amounts of freight in the Netherlands (43% of the total), Germany and Belgium, they are not used at all in the Cohesion countries.

In the accession countries, the use of this method of transportation is largely confined to the Danube which crosses a number of the countries. There are significant problems, however, in expanding its use, not least that it is too shallow in many places to enable heavy freight to be transported and cargo ports are more widely dispersed than in Austria or Germany and often fail to meet loading capacity standards.

In sum, the main challenges to be addressed in the coming years are:

- to integrate and modernise road and rail networks in the accession countries in order to establish effective links with existing networks in the present Member States;
- to improve connections to the trans-European networks in order to enable all regions to gain maximum benefit from these;
- to improve cross-border and transit routes especially between the new Member States and between these and existing Member States in order to encourage and facilitate growth of trade between them, on which their long-term economic development almost certainly depends;
- to develop short sea shipping, which is particularly important in peripheral regions as well as for islands, and at the same time to strengthen links between different forms of transport;
- to direct EU investment towards shifting both freight and passengers from road to rail and waterways as well as shifting traffic away from congested routes.
- to develop a strategy for improving the accessibility of outermost regions and their connections with the European continent, which is not part of the trans-European transport network priorities.

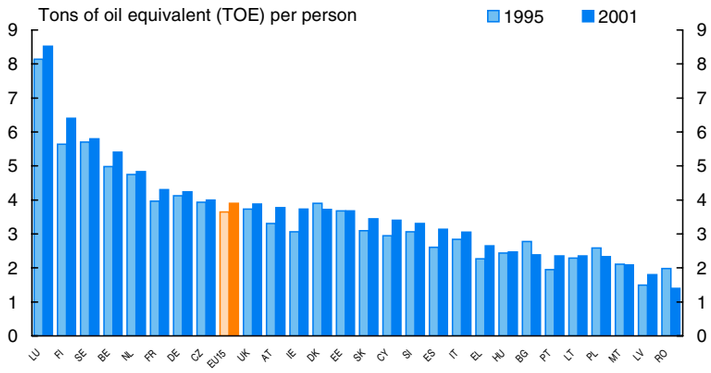
Energy

Access to clean, reliable and competitively priced energy sources is an important factor in regional competitiveness. Primary energy production, however, falls well short of consumption in most Member States. This is particularly the case in the Cohesion countries, which meet only a small part of their energy needs from domestic sources, importing 80% or more of what they consume (Graph 1.10). The UK and Denmark are the only countries in the EU which are net exporters of energy. The accession countries, for the most part, are more self-sufficient in energy, though all are net importers. Poland and Romania, in particular, import less than 12% of their energy needs. At the same time, solid fuels, which tend to be most harmful environmentally, account for almost 60% of primary energy produced in the accession countries as compared with

only 13% in the EU15. In Poland, just under 90% of primary energy production comes from solid fuels, in the Czech Republic, around 85% and in Estonia, over 75%.

By contrast, nuclear energy is responsible for 30% of primary production in the EU (over 80% in Belgium and France) as against 16% in the accession countries (though over 70% in Lithuania and Slovakia).

1.10 Gross inland consumption of energy, 1995 and 2001



EU15, DE, ES, IT, NL: provisional data for 2001
Source: Eurostat, Energy statistics and National accounts

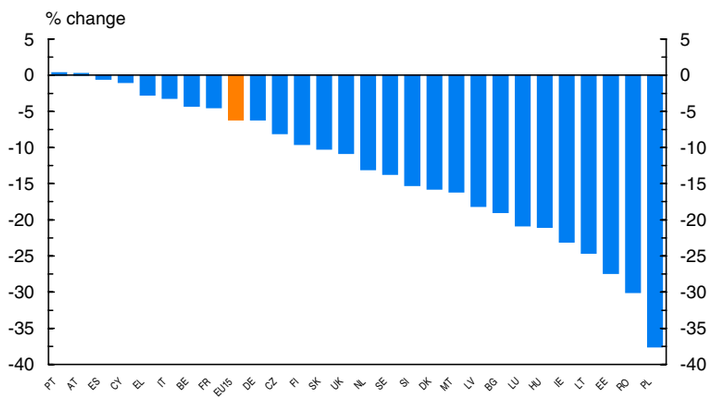
Energy consumption varies almost as widely as production, as a result, in particular, of differences in the structure of economic activity, climatic conditions, the nature of regulations, social behaviour and political decisions on taxation. Overall energy consumption per head in the accession countries is similar to the level in Greece or Portugal and much lower than the EU average.

Consumption per head generally increased in the EU between 1995 and 2001, most especially in the Cohesion countries, as it did in most of the accession countries, the exceptions being Poland, Malta, Bulgaria and Romania.

Despite the comparatively low consumption per head, however, the Cohesion countries consumed between 17% and 35% more energy relative to GDP than the EU15 average while in the accession countries taken together, consumption was almost four times higher (this, it should be emphasised, measures GDP in terms of Euros rather than PPS). Between 1995 and 2001, energy consumption fell relative to GDP in all the accession countries, in many cases markedly, whereas in the EU the decline was relatively small and in Portugal and Austria, there was a marginal increase (Graph 1.11).

The primary sources of energy consumed in the EU differ significantly from the sources of production, with oil, in particular, which is largely imported, accounting for a much larger share of consumption than production in both the existing and new Member States (Graph 1.12). Expansion of renewable sources of energy (such as biomass, wind and solar energy as well as hydro-electricity) is a common objective of EU

1.11 Change in gross inland consumption of energy per unit of GDP, 1995-2001



Source: Eurostat, Energy statistics

policy and the Commission has set a target of doubling the share of renewables in overall energy consumption in the EU to 12% by 2010. Their use at present, however, varies considerably between countries, in part reflecting the ease of exploiting the various sources, in part the policies adopted in this regard.

Renewable sources of energy supplied just 6% of the total energy used in the EU in 2001, only slightly up on the figure in 1995. Their importance in the accession countries (5% of the total) was only a little less. In a number of countries across the enlarged EU, however, the figure was much higher. In Latvia as well as Sweden, it was around 30% or more, in Austria and Finland, over 20%, and in Estonia, Romania and Slovenia, around 11%, just below the figure in Portugal (14%). In all the accession countries, the relative use of renewable sources increased between 1995 and 2001, in Latvia, Lithuania and Romania, substantially. It also increased in Finland and Sweden, but in Austria and Portugal, it fell over these six years.

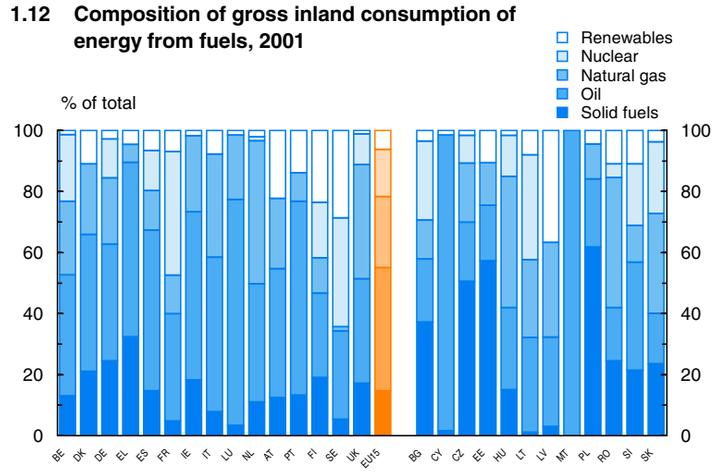
All four major planks of EU energy policy — security of supply, completion of the internal market and integration of environmental considerations as well as promotion of renewable energies — can have a positive effect on cohesion. By reducing the amount of energy consumed per unit of output and by depending more on renewable sources, all Member States can reduce their dependence on imports and so avoid the potential disruption to their economies of a possible external supply shock (such as a sudden increase in the price of oil). The development of renewables can also, if planned carefully, mitigate the damaging effects of energy production on the environment (although there have been increasing concerns about the ecological damage caused by hydro-electricity schemes), while potentially providing a cost-effective solution to peripheral areas in particular.

Other infrastructure to improve regional attractiveness

The importance of social infrastructure, including, in particular, schools, colleges and hospitals, should not be underestimated as a factor affecting regional competitiveness. The availability of high quality social infrastructure can influence decisions of where to locate investment and set up business, particularly in cases where those concerned have wide discretion over where they live and work and so can take account of personal preferences and family interests. Such infrastructure is, therefore, becoming an important part of the development policy of regions seeking to attract high value-added, knowledge-based activities.

Social infrastructure is also important in maintaining population. Good schools are increasingly determining where people choose to live, as witnessed by variations in property prices. Equally, the availability of day care facilities is a key factor in determining whether or not many women with young children are able to pursue working careers, and which, accordingly is part of the reason for low employment rates among women in parts of the EU, especially the less prosperous parts, as well as for high rates of part-time employment elsewhere[14]. The provision of such facilities may help to

1.12 Composition of gross inland consumption of energy from fuels, 2001



Source: DG TREN

keep people from moving away from some of the more peripheral and rural areas where the creation of jobs for women has been identified as one of the ways of encouraging people to stay.

In this regard, results from the first Urban Audit carried out in 58 European cities, which together account for an average of 15% of the population in the countries in which they are located, indicate that those in the more prosperous regions have a larger number of day care places per inhabitant than cities in the less prosperous ones.

For the elderly, it is of vital importance to have access to good health care facilities as they grow older. For some, the availability of care may determine whether they spend their retirement years in the place they have been living or move elsewhere. At the same time, good health care facilities are equally important in tourist regions, especially those in the south of Europe with warm climates, seeking to attract the growing number of people in retirement who take extended, or more frequent, holidays and whose choice of where to stay is influenced by the care available.

It is, therefore, of some relevance in this respect that, while there are similar numbers of doctors, nurses and other medical practitioners per head of population in the south of the EU as in the north, there tend to be fewer hospital beds in relation to population.

Whereas in Germany and France, therefore, there are 8–9 beds per 1000 people, in Greece, the average is 5 and less than this in tourist areas, falling below 3 in Kentriki Ellada and Peloponnisos and below 2 in Sterea Ellada. Similarly in Portugal, the average is 4 beds per 1000, but only 2½ in Alentejo and 2 in the Algarve. In Spain, where the average number is also 4 per 1000, it is only around 3 in Valencia and Andalucía, and in Italy, there are fewer hospital beds in Campania, Basilicata and Sicilia (around 4 per 1000) than in northern regions (over 5 per 1000 in most cases).

In Italy, in particular, this difference in part reflects the age structure of the regional population and the fact that the elderly, who impose disproportionate demands on the health system, account for a much smaller proportion of the population in the south than the north[15]. On the other hand, the figures almost certainly understate the disparity between the southern and northern regions in this respect, given that the resident population in the former is increased significantly by tourists for long periods of the year.

In the accession countries, the position is much more favourable. Not only are numbers of doctors, nurses and other health care professionals on a par with numbers in the EU15 in relation to population or even higher, but, with the exception of Cyprus (4 beds per 1000 inhabitants), the number of hospital beds is also relatively high. In the Czech Republic, therefore, there are some 11 beds per 1000 people, more than in virtually all parts of the EU15, and in Lithuania and Latvia, around 9, more than in Germany or France, while the countries with the lowest figures, Poland and Estonia, still have around 7 beds per 1000 which is above the EU average.

Social infrastructure, together with environmental conditions, is a key determinant of the quality of life in any region and is as important as systems of transport and other more traditional forms of infrastructure for regional competitiveness.

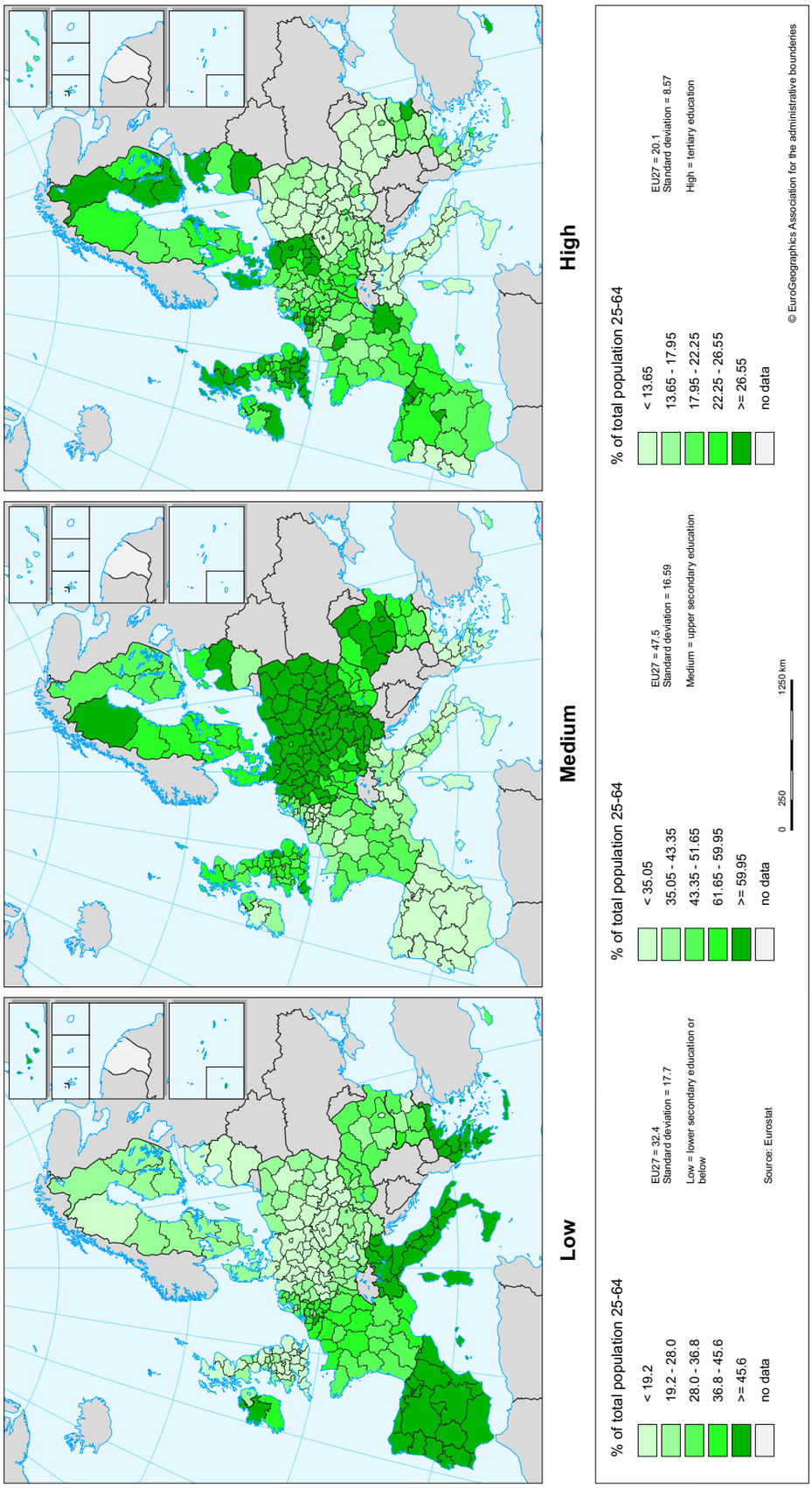
Human resources

The European Employment Strategy launched in 1997 seems to have contributed to increasing the resiliance of employment in a period of economic slowdown. Between 1999 and 2002, the number employed increased by 6 million and long-term unemployment fell from 4% of the labour force to 3%. However, while notable improvements have occurred in the operation of EU labour markets, important structural weaknesses remain in both present and future Member States.

Education of growing importance

Education levels play a major role in determining economic performance and the competitiveness of the

1.9 Educational attainment levels, 2002



European economy[16]. It is also of key importance for the employment opportunities open to people. This applies not only to the range of jobs that are available to them but more fundamentally to whether or not they are able to find a job at all. Those with tertiary level education — ie with university degrees or equivalent qualifications — are more likely to be in employment than those with upper secondary level who are in turn more likely to be employed than those with only basic schooling. This tendency, which is only likely to be strengthened by the continued development of the knowledge-based economy in future years, is very evident in existing EU Member States, especially for women. But it is even more pronounced in the accession countries for both men and women.

Whereas, some 86% of men aged 25 to 64 with tertiary education were in work in the accession countries taken together in 2002, the figure for those with upper secondary education was 74% and for those with only compulsory schooling, 51%. For women, 79% of those with tertiary education were in work, 61% of those with upper secondary level and only 38% of those below this level.

Similar differences are evident at the regional level, but in a more pronounced form. The gap in employment rates between those with high and those with low education tends to be wider in regions where the overall employment rate is relatively low than in those where it is higher. People with low education, therefore, are much more likely than those with higher education levels to be out of work if they live in low employment regions.

Education levels in the accession countries compare favourably with existing EU Member States …

According to the latest data (2002), some 78% of the population aged 25 to 64 in the accession countries have at least upper secondary education. The proportion varies from just over 70% in Bulgaria and Romania to over 85% in the Czech Republic and Slovakia, well above the EU average (64%) and even further above the average in existing Objective 1 regions (only around 40% in such regions in Spain and Italy and just 20% in Portugal). The one exception is the German new Länder, in which the proportion is over 90%, higher than in the rest of the country and more similar to that in the accession countries than the EU, reflecting their common recent history (Map 1.9).

There is a question mark, however, over how well upper secondary education and initial vocational training in accession countries equip young people for labour market needs or to be able to adapt as needs change. In particular, curricula and teaching structures in these countries seem not well adjusted to the modern economy. With only a few exceptions, they tend to score relatively poorly in international tests of literacy and numeracy.

… though less so in tertiary education

The proportion of the population attaining tertiary education tends to be low in the Objective 1 regions of the Union. In all countries, except Germany where the new Länder have especially high education levels, the average proportion with a university degree or equivalent is lower in Objective 1 than in other regions. In Greece and Portugal, where all regions are Objective 1, the proportion is below the EU average. Furthermore, although education levels appear to be improving in general, in the sense that larger numbers of young people have tertiary education than those in older age groups, there is little sign of the gap between Objective 1 and other regions being closed.

The relative number of working-age population with tertiary education is also relatively small in most of the accession countries. Overall, only 14% of those aged 25 to 64 have university degrees or the equivalent, well below the EU average (22%). Only in Estonia and Lithuania were the figures above the EU average. In the Czech Republic and Slovakia as well as in Poland and Romania, the proportion was only around 10–12%. Nevertheless, this is still higher than in Portugal or the Objective 1 regions of Italy.

In most accession countries, the only exceptions being the three Baltic States, a smaller proportion of women aged 25 to 64 had upper secondary level education than of men, but in most countries, more women had tertiary level qualifications. In the EU, women in this age group tend to have lower qualifications than men — though not in Portugal — but the position is changing rapidly as significantly more women than men in younger age groups continue in education beyond basic schooling and go on to university. Although there has been an increase over time in the numbers acquiring tertiary level qualifications in the accession countries, the proportion of 25 to 29 year-olds with university degrees or equivalent (17%) is still substantially lower than in the EU (27%).

Education attainment levels vary across regions in the accession countries as well as in the existing EU. In general, levels are on average significantly higher in the capital city regions than in the rest of the country and, to some extent, in the more prosperous regions than in the less prosperous.

Less prosperous regions have a higher level of early school leavers

Significantly more young people leave the education system with only basic schooling in Objective 1 regions than in other parts of the EU. In 2002, some 26% of those aged 18 to 24 in Objective 1 regions had no qualifications beyond basic schooling and were no longer in education or training, twice the proportion in non-Objective 1 regions. Although many of these were working, they are likely to find it increasingly difficult to find jobs in the knowledge-based economy as they get older and as educational requirements increase. Reducing the number of such people in Objective 1 regions can, therefore, make an important contribution not only to reducing employment disparities between regions but also to strengthening their development prospects[17] (Map A1.8).

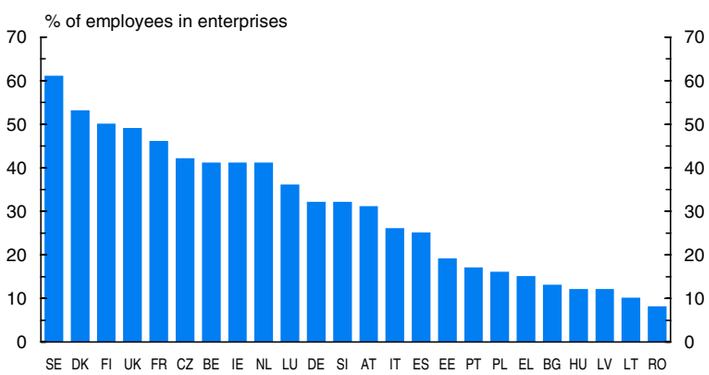
In the accession countries, the rate of drop-out from the education system is in most cases much lower than in the EU15. Only in Bulgaria, Latvia and Romania is the proportion of those aged 18 to 24 with only basic schooling and no longer in education or training above the EU average (around 20% or just above in all three cases), though even here, it was still below the average in Objective 1 regions. In Hungary, it is around 12%, in Poland, 8% and in the Czech Republic, Slovakia and Slovenia, only around 5%.

Life-long learning

The capacity of the labour force, as well as businesses, to adapt to changing market circumstances is a key factor in regional competitiveness. This requires access to training in order to update and extend skills. Continuing vocational training is, therefore, of as much importance both to an individual's career prospects and to the competitiveness of economies as initial education.

The relative number of those in employment participating in continuing training is much less in the Cohesion countries, Ireland apart, than in the rest of the EU, according to the latest data available[18]. In Spain, the

1.13 Rate of participation in continuing vocational training, 1999



** PL = refers to the Pomorskie region only*

Source: Eurostat, Second Survey of continuing vocational training in enterprises (CVTS2)

proportion was only some 25% in 1999 as against an EU average of 40%, while in Portugal, it was 17% and Greece, just 15%. (These figures, it should be noted, cover only the enterprise economy and exclude public administration, communal services and agriculture.) (Graph 1.13).

In the accession countries, continuing training is particularly important given the restructuring of the economy and the apparent narrowness of the initial educational and training system. Despite the relatively large proportion of young people attaining upper secondary level qualifications, most of these tend to train for a particular vocation which does not necessarily safeguard their long-term future on the labour market as the demand for skills changes.

Participation in continuing training, however, seems in most cases to be significantly lower in the accession countries than in the EU. On average, only 17% of those in employment in the enterprise economy received any form of vocational training in 1999, less than half the proportion in the EU, though similar to that in Portugal and slightly higher than in Greece. Only in the Czech Republic was the proportion in receipt of training above the EU average, if only slightly (42%). In the other accession countries, apart from Slovenia (32%), the proportion was under 20%.

There is a clear need, therefore, to expand continuing training in these countries and to provide much wider access to lifelong learning. The major difficulty is one of finding the necessary financial means of achieving this.

Participation of women in the labour market

The potential of women to contribute to economic activity in the EU has still not been fully tapped. While the employment rate of women in the Netherlands, the UK, Austria and the Nordic countries is already above the Lisbon target of 60%, in Spain, Greece and Italy, it is well below.

Women are paid less than men for equivalent work. The gender pay gap has remained at 16% since 1998.

Immigration and the integration of third-country nationals

Given the prospective decline in population of working-age in the EU in the years to come and labour shortages in a number of activities, immigration has taken on new significance.

The successful integration of immigrants into society is important both for social cohesion and economic efficiency, especially in the context of the Tampere and Lisbon agendas. Persisting problems of high unemployment and exclusion from the labour market among non-EU nationals, many of whom are immigrants from third countries but some of whom are the children of immigrants who were born in the EU, demonstrate that greater efforts of integration are needed.

Policies for improving the integration into society of those migrating into the EU from third countries as well as ethnic minorities need to take account not only of economic and social aspects but also of cultural and religious diversity, citizenship and political rights. The consequences of the influx of migrants need, in addition, to be taken into consideration at regional and local level. While priorities vary between countries, integration policies need to be planned over the long-term and be responsive to the specific needs of particular groups.

What is required is not only more coherence between relevant policies at all levels, but also closer collaboration both between different layers of government and between public authorities and the Social Partners, the research community, local service providers, NGOs and, above all, migrants themselves.

Gender segregation in the labour market persists with many more men than women working as managers and in senior positions. Working arrangements are a major factor underlying the low participation of women. Moreover, almost a third of women in employment work part-time as against less than 5% of men,

many doing so because of the lack of childcare facilities.

In all new Member States, the participation of women in the labour market fell markedly during the early years of transition. In 2002, in Cyprus and Slovenia, the employment rate of women was just below the Lisbon target, while in Poland, the figure was only 47% and in Malta, just 32%.

Preventing unemployment and active labour market policies

Preventative measures and active labour market policies are essential if the full potential of the work force in the EU is to be tapped. In many Member States, efforts have made efforts to ensure that everyone becoming unemployed is given individual job search assistance and guidance at an early stage. Indeed, there is a general tendency towards increasing personalised support and improving the efficiency of programmes by identifying the needs of job seekers and giving preference to tailor-made over general measures.

Efforts are also being made to ensure that young people have access to training, work experience or some other employability measure before they have been unemployed for 6 months and those over 24, for 12 months. There is too little attention, however, given to the inactive as opposed to those registered as unemployed, which can, in particular, limit the access of women to labour market programmes.

Equally, there remain differences in the effectiveness of active labour market policies between different parts of the Union, and such policies need to be strengthened especially in regions with high unemployment and a need for restructuring.

This need extends to the new Member States, where expenditure on active policies seems to be low given their high unemployment — and high long-term unemployment — even in relation to levels in Greece and Portugal which are the lowest in the Union.

The main challenges to be addressed in the future to achieve the employment objectives set at Lisbon and increase productivity are:

- to promote the adaptability of workers and enterprises, by increasing their capacity to anticipate, stimulate and absorb change;

- to increase labour participation and make work a real option for all, especially given the prospectve decline in working-age population, by breaking down barriers to the labour market, increasing employability and preventing unemployment, making working arrangements more attractive and ensuring that work pays;

- to invest more, and more effectively, in human capital, to ensure that low-skilled workers in particular are able to acquire and update their skills so that they can remain and progress in work and to increase educational attainment levels and the participation of people in training throughout their working lives so as to make lifelong learning a reality.

Innovation and the knowledge economy

Knowledge and access to it has become the driving force for growth in advanced economies like the EU. Know-how and intellectual capital, much more than natural resources or the ability to exploit abundant low-cost labour, have become the major determinants of economic competitiveness since it is through these that economies can not only increase their productive efficiency but also develop new products.

Innovation, therefore, holds the key to maintaining and strengthening competitiveness which in turn is essential for achieving sustained economic development. The capacity to innovate, however, varies widely across regions in the EU and will do so even more after enlargement. This reflects similarly wide differences in access to knowledge and the ability to exploit it. Unless these differences can be narrowed, it will be difficult if not impossible to achieve the Lisbon

objective of the EU becoming the most dynamic knowledge-based economy in the world.

The difficulty faced by policy-makers intent on closing the innovation gap is to measure both the factors which give rise to it and their effect on competitiveness. The indicators available are partial and need to be supplemented by more qualitative information about regional circumstances, the various parties involved in innovative activities — research institutes, businesses and public authorities — and the relationship between them.

Several indicators are presented below. The picture they show is not new, but it confirms the extent of relative disadvantage of regions in the accession countries, as well as those currently designated as Objective 1.

Both R&D and high-tech activities are highly concentrated in the core regions of the present EU. In 1999, just 8 regions in the present EU accounted for over a quarter of total R&D expenditure in the Union and 30 were responsible for approximately half. As might be expected, there is a similar concentration of patents — an indicator, if only a partial one, of the output of innovation — with half of all high-tech applications to the EU Patent Office being made in just 13 core regions (Map A1.9).

There are even wider disparities between regions in business R&D expenditure, which is perhaps most relevant for assessing the potential contribution of the innovative effort to competitiveness. While average business expenditure on R&D in Germany was 1.7% of GDP, in Finland, 2.2% and in Sweden, 2.7%, in all regions in Portugal and Greece, except Lisboa, Attika and Pelopponisos, the figure was under one-tenth of this at under 0.2% of regional GDP. In Objective 1 regions across the EU as a whole, business expenditure amounted to less than 0.3% of GDP only just over a fifth of the average EU level (1.3%) (Map 1.10).

Government expenditure on R&D is much more similar between regions. Nevertheless, it was still slightly smaller in relation to GDP in Objective 1 regions in 1999 than in other areas (between 0.15% in Spain and Greece and 0.21% in Portugal as against an EU average of 0.27% in 1999 and, therefore, does not begin to compensate for the huge difference in the scale of business spending. This also applies, to a larger extent, to expenditure in higher education, which was much the same in Objective 1 regions as in others (around 0.4% of GDP).

While there was some increase in business expenditure on R&D in Objective 1 regions between 1995 and 1999, this was slightly smaller in relation to GDP than the growth in non-Objective 1 regions (though spending increased by more in percentage terms in the former than the latter). At the same time, government expenditure rose relative to GDP in Objective 1 regions while in other areas, it fell.

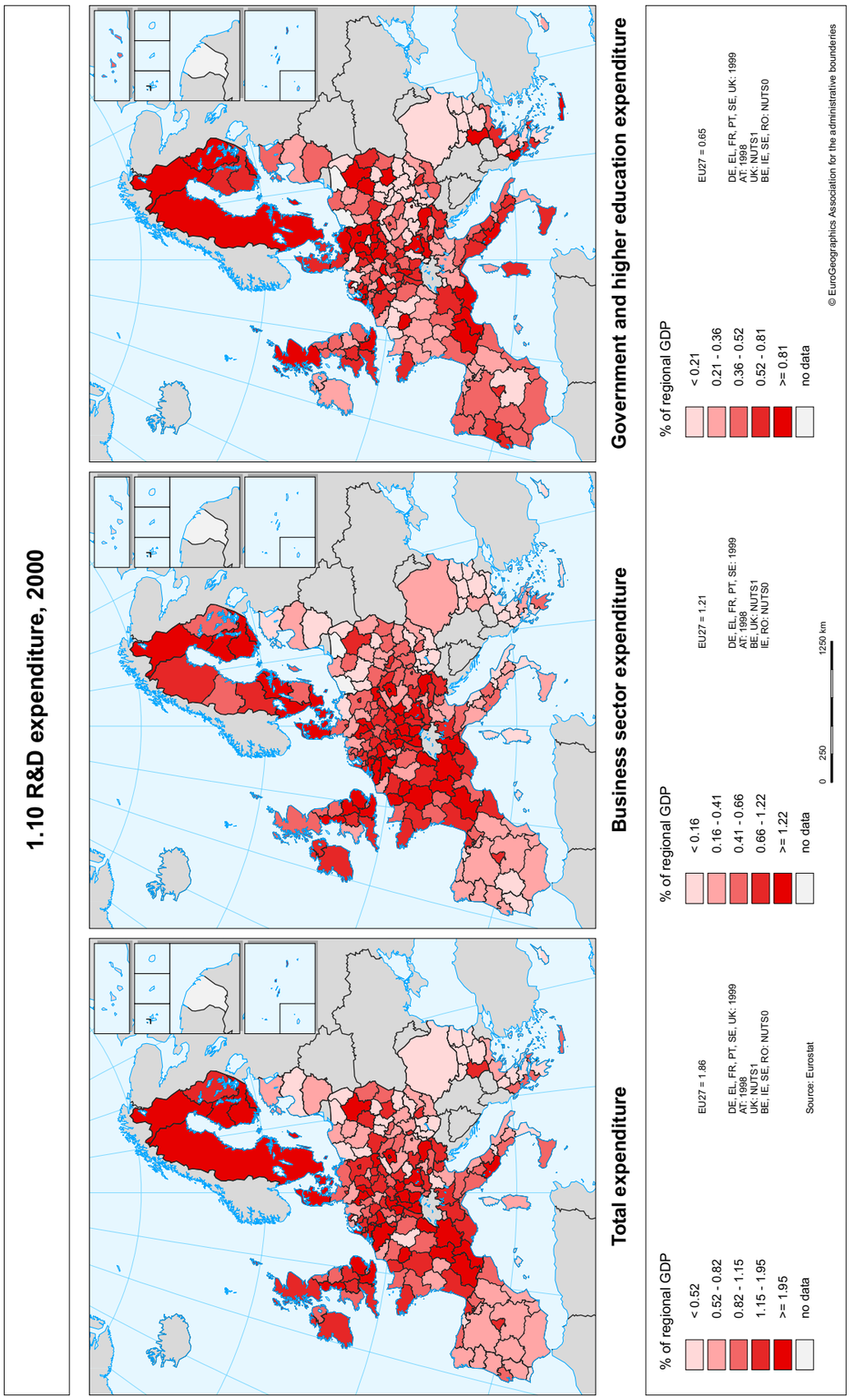
…state aid widen disparities between Member States…

It is also important to highlight the differing levels of support which Member States provide to businesses in the form of state aid for R&D[19]. Governments in the more prosperous countries, with a few notable exceptions, give substantially more support for the expenditure which companies undertake than those in less prosperous ones.

According to the latest data, the scale of support, varied from well over EUR 300 per person employed in manufacturing in Finland and Austria to only EUR 28 in Portugal and just EUR 12 in Greece. (Table A1.9).

Small size of firms is further undermining innovative capacity in weaker regions

Firms in less favoured regions suffer from being isolated from the best international R&D networks and research centres developing new technologies[20]. SMEs in these regions, in particular, have difficulty in finding out about the latest technological developments and how to use these and in making contact with suitable partners elsewhere.



As recent OECD empirical studies have shown, product innovation is predominantly a collective process, involving interaction both between businesses and between these and the research institutes which make up the regional knowledge base. Firms located in weaker regions are often isolated from contact with other businesses and research institutes and as a result innovate less than those elsewhere[21].

R&D activity tends to vary with firm size, particularly in manufacturing. Regions with a high concentration of manufacturing employment in small firms, which are predominantly in the south of the EU, tend to have low rates of expenditure on R&D. In 2000, the share of employment in manufacturing in firms with under 50 people employed amounted to 47% in Portugal, 53% in Spain and 56% in Italy (no data available for Greece) as compared with only 27% in the rest of the EU. Moreover, within these countries, the share of employment in small firms is even larger in the weaker regions — over 60% in Objective 1 regions in southern Italy and 65% in those in Spain, according to estimates[22].

This disparity in firm size between regions is equally evident in the rest of the EU. In Germany, for example, small firms account for a third of employment in manufacturing in the new Länder as against around 20% in the rest of the country.

Unlike large firms, which usually have an internal capacity for research, SMEs depend largely on their capacity to access technology and know-how from outside, especially in their immediate vicinity. According to a recent survey, businessmen in SMEs rate the acquisition of advanced equipment and cooperation with suppliers and customers as the two most important ways to access new technology, well ahead of conducting in-house R&D[23]. Moreover two out of every three managers interviewed across the EU considered networking, in the form of joint development of new products, sharing knowledge between companies and so on, as important or very important for innovation.

The sectoral composition of economic activity also tends to work against weaker regions. High-tech industry and knowledge-intensive business services for the most part are concentrated in core regions, which in itself tends to increase innovative activity, since much more is spent on R&D in these activities than in more basic ones in which employment is concentrated in less favoured regions (Map 1.11).

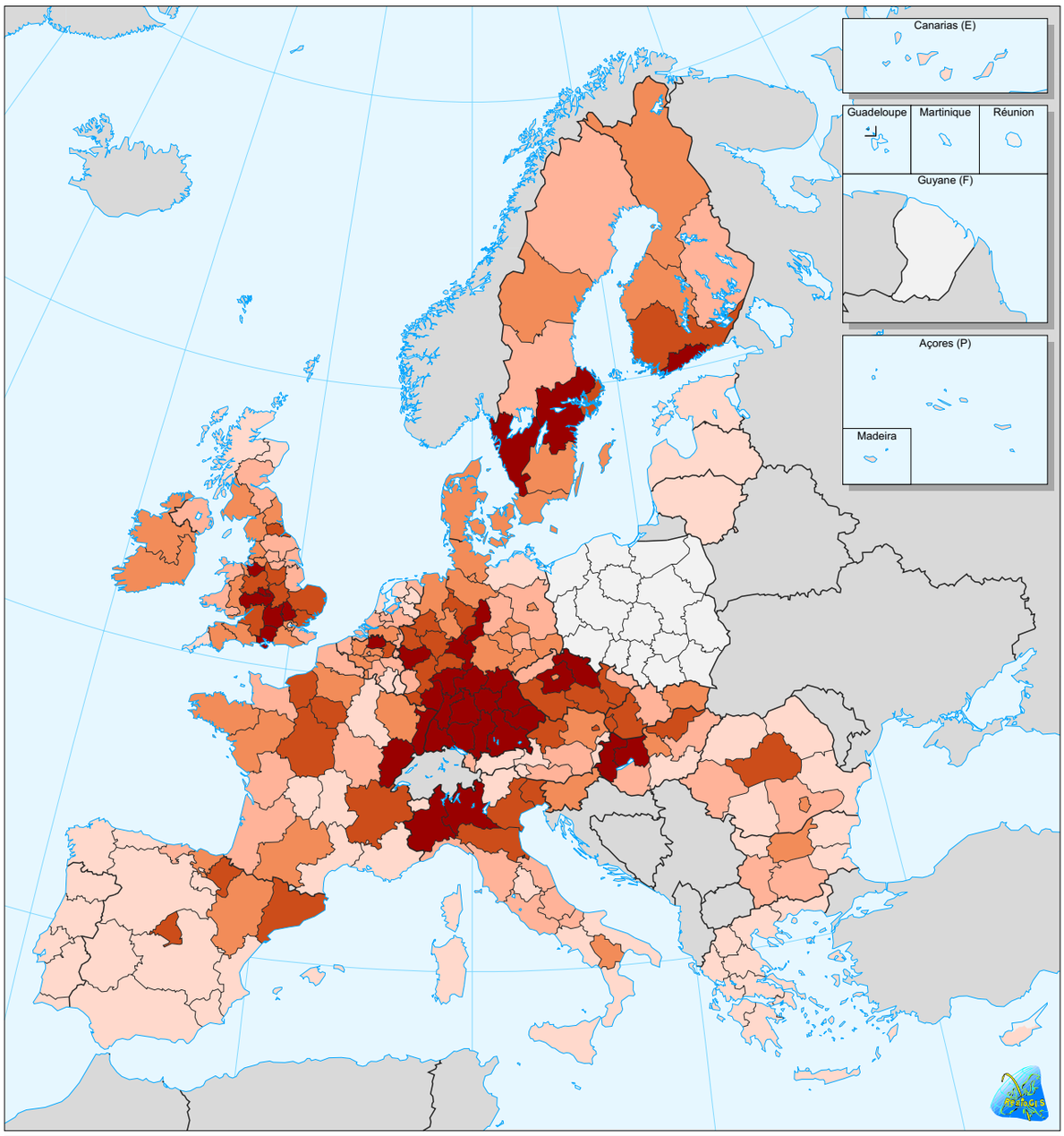
Moreover, employment growth in the EU tends to be concentrated in knowledge-intensive activities, which means that regions in which such activities are concentrated are not only likely to gain in competitiveness but they are better placed to generate new jobs. Over time, this could lead to an increasing concentration of these activities in the stronger regions and widening disparities between these and other regions[24].

Innovative activity in the accession countries

In the accession countries, much less is spent on R&D in relation to GDP than in most of the existing EU Member States but only slightly less than in Objective 1 regions. In 2001, expenditure amounted, on average, to under 1% of GDP (0.8%), under half the EU15 average. Expenditure by business enterprises accounted for only just over 45% of this, much less than in the EU (65%), while the rest was split fairly evenly between the government sector and higher education.

Business spending on R&D in the accession countries relative to GDP, therefore, was only around a third of the average level in the EU but marginally higher than in Objective 1 regions taken together. Government outlays in the accession countries were much the same in relation to GDP as the average for both the EU and Objective 1 regions, but higher education spending on R&D was only around half the EU and Objective 1 average.

There was less variation in spending between the accession countries than in the present EU. The Czech Republic and Slovenia, reflecting their relative prosperity, had the highest expenditure, but this was only around 1½% of GDP, less than in most Member States but more than in the four Cohesion countries



1.11 Employment in high-technology sectors, 2002

% of total employment

- < 7.45
- 7.45 - 9.55
- 9.55 - 11.65
- 11.65 - 13.75
- >= 13.75
- no data

Average = 10.6
Standard deviation = 4.30

Source: Eurostat

0 100 500 km

plus Italy. Bulgaria, Romania and Latvia had the lowest levels, at around ½% of GDP, similar to the level in Portugal but slightly below that in Greece. In the other countries, expenditure was much the same as in the existing Objective 1 regions outside Germany.

As in the EU, the main reason for the variation in overall expenditure on R&D is the difference in business expenditure. While this accounted for around 60% of total spending in the Czech Republic and Slovenia, it was responsible for 40% or less of spending in 6 of the other 8 countries.

Again as in the EU, there was little change over the second half of the 1990s in the level of spending on R&D relative to GDP in the accession countries taken together. Overall, there was a slight fall and the share of expenditure accounted for by businesses declined rather than increasing as in the Union. Only in the Czech Republic, Hungary and Lithuania did overall expenditure on R&D rise in relation to GDP between 1995 and 2001. In Romania and Slovakia, it declined markedly.

R&D concentrated in the most prosperous regions just as in the EU15

There is a clear tendency, as in the EU, for expenditure on R&D to occur disproportionately in the more prosperous regions within each of the accession countries. This is particularly evident in Bulgaria, where 80% of all spending took place in Yugozapaden where Sofia is located. It is almost as evident in Hungary and the Czech Republic, in both of which over 60% of spending occurred in the capital city and surrounding region. Indeed, the level of spending relative to GDP in Prague and the surrounding region of Stredny Cechy taken together amounted to almost 2½% of GDP, which is significantly higher than in any region in Spain or Italy and above the level in all French regions apart from Ile de France and Midi-Pyrénées. Similarly, in Poland, expenditure in Mazowieckie, in which Warsaw is located, amounted to around 1½% of GDP, over twice the level in all other Polish regions, except one (Malopolskie).

This relative concentration of expenditure in the more prosperous regions, however, owes much less to the location of business spending than in the EU. (The one exception is Stredny Cechy in the Czech Republic, where the high level of spending is wholly due to the scale of expenditure by business enterprises.) In Prague, business spending on R&D in relation to GDP was below the national average and the high expenditure overall is the result of high spending by government and higher education establishments. Similarly, in both Hungary and Poland, government spending on R&D was substantially greater in the capital city regions than elsewhere in the country, though in both cases this was accompanied by business expenditure in these regions also being high, if less so.

ICT offers new opportunities to firms and regions

Information and communications technology (ICT) has brought both new opportunities and challenges for businesses and represents a new factor of regional competitiveness. For regions, ICT has increased the pace of change with potentially profound effects on living and working conditions and on the territorial distribution of economic activity.

… but disparities remain in terms of regional access to ICT …

From a cohesion perspective, ICT seems to offer a major opportunity for reducing the 'friction of distance' and the problems of remoteness which many peripheral regions — and even more, outermost areas — suffer from. At the same time, however, there is growing concern over the territorial dimension of the so-called 'digital divide' and a fear that restrictions on access to ICT networks or limitations in the ability of enterprises and households to use the new technology could serve to widen rather then narrow disparities in regional performance.

Although the pattern of development of different aspects of ICT varies, a number of regional disparities are already evident:

- there is a north-south divide in the present EU in the development of most of the new technologies, which is broadly tantamount to a divide between cohesion and non-Cohesion countries;

- there is a west-east divide, between the existing EU Member States and the accession countries in the rate of penetration of all new technologies. There is, however, evidence of some catching up as adoption of several key technologies is growing more rapidly in the accession countries than in the EU15;

- there are considerable differences between accession countries in the rate of ICT development though, as in the EU, this varies between different aspects; for example, in 2001, the number of Internet users in Estonia and Slovenia was only slightly below the EU average but in Romania less than one-fifth of the average;

- there are disparities between regions within countries, with, in general, the pace of development in metropolitan areas, particularly large cities, being in advance of other parts and with rural areas lagging behind.

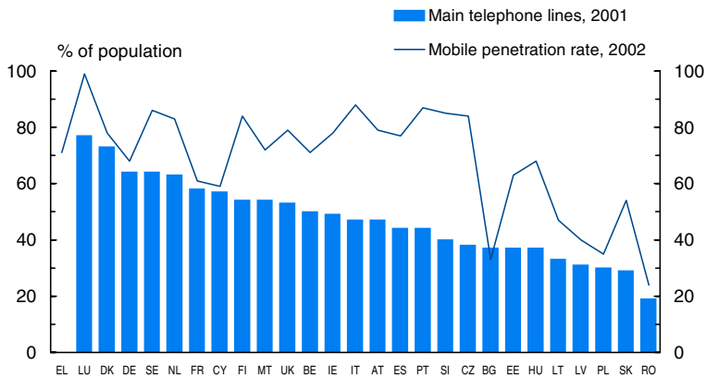
So far as telecommunications is concerned, the number of fixed telephone lines relative to population remains relatively low in the Cohesion countries, Greece apart, as compared with the rest of EU and has shown little tendency to increase in relative terms. In Spain and Portugal, therefore, there were 44 lines per 100 people in 2001 as against an EU average of 55, while in Ireland (49) as well as in Italy (47), it was also below average.

In the accession countries, the number of fixed lines is even smaller. Leaving aside Cyprus and Malta, where the number of lines relative to population is around the EU average, in all the accession countries, there were on average 40 lines or less per 100 people in 2001, the figure varying from 40 in Slovenia and 38 in the Czech Republic to 30 in Poland, 29 in Slovakia and only 19 in Romania. Unlike in the EU, however, these numbers have risen significantly since the mid-1990s, though more recent evidence suggests that the increase in a number of countries seems to have come to an end as ISDN and mobile lines develop (Graph 1.14).

The comparatively small number of fixed lines in relation to population in the southern EU Member States is offset in some degree by greater use of mobile telephones. In Italy and Portugal, therefore, the number of subscriptions to cellular mobile services in 2001 was above the EU average (84 and 78 per 100 people, respectively, as against an average of 74). In Spain, the number was the same as the EU average, though in Greece, it was below (68), less than anywhere else in the EU15, except France and Germany.

In the accession countries, the number of mobile subscriptions relative to population were in nearly all cases lower than in the EU in 2001. The two exceptions were the Czech Republic, where the number per 100 inhabitants was the same as in Greece (or Germany), and Slovenia, where it was the same as in Portugal and above the EU15 average. Elsewhere, the number ranged from 54 in Estonia and 49 in

1.14 Number of main telephone lines and mobile penetration rate, 2001/2002



Source: Eurostat, Telecommunication services, for main telephone lines; DG Information Society, Eighth Report on the Implementation of the Telecommunications Regulatory Package and 3rd Report on Monitoring of EU Candidate Countries, for mobile penetration

Hungary to 25 in Poland and just 20 in Bulgaria and Romania. Nevertheless, in all countries, the figure is rising steadily.

Although mobile telephones and the services they provide have become important for business efficiency, access to these has come to be taken for granted even in the less developed parts of the EU. This is not the case for broadband lines, which can make a much bigger contribution to business efficiency by providing, in particular, high-speed access to the Internet, enabling large amounts of data to be transferred and opening the way for the development of new online applications. Moreover, the use of broadband can reduce communication costs dramatically, so reinforcing the boost to competitiveness that it can involve. Access to broadband, however, varies markedly across the EU and across regions within countries, the least prosperous areas having least access, and this seems set to continue into the future. Already, therefore, broadband appears to be widening the digital divide rather than narrowing it.

The number of broadband lines in relation to population is highest, according to the most recent data available (for 2002) in Denmark and Belgium, reaching 7–8 per 100 people, and lowest in Greece and Ireland, at less than 1 line per 100, with the figure in Italy and Portugal being only slightly higher. In Spain, on the other hand, it was 2 per 100, the same as in France or the UK.[25]

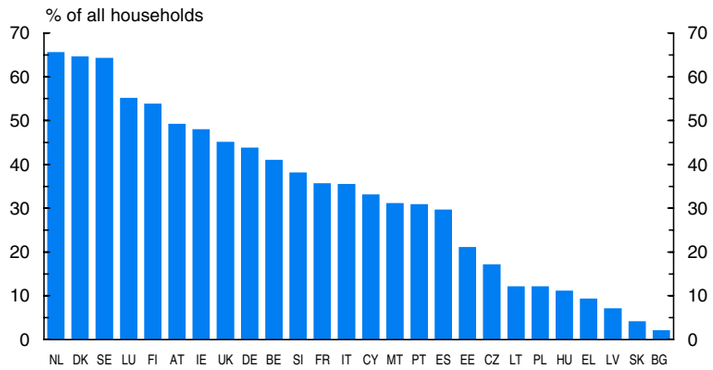
In the accession countries, access to broadband is, for the most part, even more limited than in the Cohesion countries, the main exceptions being Estonia and Slovenia. Here as in the EU, how quickly someone is able to have broadband installed or, indeed, whether they will be able to have it at all, depends on where they are located, whether centrally or peripherally. In a number of the more remote areas, access is likely to prove problematic for some time to come.[26]

The spread of broadband is closely related to the use of the Internet, which also varies across the EU to a large extent in line with levels of prosperity. In 2002, around 40% of households in the EU15 had access to the Internet, but around 65% in Denmark, the Netherlands and Sweden as against around 30% in Spain and Portugal and only 9% in Greece.

In the accession countries, fewer households in general have Internet access than in the EU15. Only in Slovenia was the proportion close to EU average in 2002 (at 38%), though in Cyprus and Malta (just over 30% in both cases), it is about the same as in Spain and Portugal. In other countries, the proportion ranges from 21% in Estonia and 17% in the Czech Republic to only 7% in Latvia, 4% in Slovakia and 2% in Bulgaria (there are no data for Romania). Nevertheless, except for the latter groups of countries, the figure was still higher than in Greece (Graph 1.15).

These generally low proportions in part reflect the technical difficulty of gaining access to the Internet in these countries and as these difficulties are resolved, they will undoubtedly increase. The extent of the increase, however, may well depend on both the spread of broadband and the services available on the Internet. Although the proportion of households with access to the Internet may not directly

1.15 Level of Internet access of households, 2002



Source: Eurostat, Information Society Statistics

have a bearing on economic performance, indirectly it tends to reflect both the technical abilities of people and their receptiveness to new technology, both of which can be important in economic development. Nevertheless, it is take-up and use of the Internet and other new technology by business which is likely to have a more direct influence on competitiveness.

Internet access by enterprises as would be expected is far higher than for households, with almost all firms above a minimal size having access in most Member States. In 2002, almost 80% of enterprises in the EU15 with more than 10 people employed had an Internet connection, with only a relatively small variation between countries. The proportion, therefore, was only slightly below the EU average in Greece (74%), which had the lowest figure in the Union, and around the average in Spain and Portugal. (No data are available for the accession countries.)

According to the latest survey data[27], the majority of enterprises of this size also had a website. However, the proportion of them using the Internet to sell their products or services varied by more than those with access, under 10% selling online in Spain, Greece and Portugal as compared with some 30% in Germany and the UK.

In the coming years, particular attention needs to be given to:

- developing new innovation promotion policies which focus much more on the provision of collective business and technology services to groups of firms which can affect their innovative behaviour, rather than direct grants to individual firms which tend only to reduce costs temporarily;

- developing new policies to strengthen the capacity of SMEs to innovate through business networks and clusters and improving their links with the knowledge base, including with universities and research centres;

- encouraging the development of the indigenous R&D potential of weaker regions and their capacity to adapt technological advances made elsewhere to local circumstances and needs;

- facilitating access of researchers, businesses and others in less favoured regions to international networks of excellence, sources of new technology and potential R&D partners.

Regional governance and institutional performance in the knowledge-based economy

It is widely accepted that good governance and an effective institutional structure are an important source of regional competitiveness through facilitating cooperation between the various parties involved in both the public and private sectors. In particular, they can improve collective processes of learning and the creation, transfer and diffusion of knowledge and transfer, which are critical for innovation. In addition, they can cement networks and public-private partnerships and so stimulate successful regional clusters as well as regional innovation strategies and policies. They are important for less-favoured regions which tend to have deficient systems of governance and inadequate understanding of science and technology policy issues yet face significant economic, technological and social change.

Evidence from research and pilot policy actions[28] suggests public policy can contribute to good governance, though promoting public and private partnerships and business networks, as well as improving the institutional capacity of regional authorities responsible for innovation.

The establishment of a regional framework for interfirm cooperation is of paramount importance for the promotion of innovation in SMEs in particular. Such cooperation and the networks that are formed help to translate knowledge into economic opportunity, while at the same time building the relationships between people and organisations which can act as a catalyst for innovation.

Experience shows that good governance requires a shift from a traditional top-down approach towards a more open form involving all the relevant parties in a particular region. Such partnerships should extend to all the policy areas relevant for economic, scientific and social development (an integrated approach) and should ideally establish a long-term policy horizon (a strategic approach).

It is evident that the comparative advantages that drive innovation and investment are as much a regional characteristic as a national one. For regions to succeed, "they must harness their own mix of assets, skills and ideas to compete in a global market and develop unused potential." [29]

Regional authorities are in a strategic position to do this and, in particular, to set up public-private co-operation networks, which are important for knowledge-based economic development, and to create a suitable climate for effective innovation adapted to local SME needs. They are well placed to coordinate different elements (policies and institutions) of the regional innovation system, starting from an analysis of the development needs of local firms and the principal obstacles facing them, and to raise awareness of the importance of innovation.

A national innovation policy for SMEs is, therefore, difficult to implement without a close relationship with regional authorities with a detailed knowledge of key parties involved in R&D in regions and of the productive base. At the same time, regional innovation policies need to be coordinated with the major national and international R&D networks, including, universities and research centres.

Equally, such policies cannot be effectively developed without the direct participation of the private sector in planning and implementation and without the agreement and active support of others involved in R&D and innovation in the region — semi-public agencies, technology centres, universities and trade unions.

Environmental protection: achieving the Gothenburg objectives

In 2001, the European Council in Gothenburg added the environment as the third strand to the Lisbon strategy for economic and social development, so confirming the commitment to sustainability. EU policy is, therefore, aimed at creating a 'virtuous circle' within which regional development both reduces economic and social disparities and leads to an improvement in the environment.

There are, however, substantial differences between Member States and regions as regards the present state of the environment, the nature and scale of problems which threaten it and the local capacity to combat them.

Although data at the regional level are incomplete, the indicators which can be constructed tend to show a positive association between the state of the environment and economic and social performance.

Water

Access to clean water and the preservation of fresh water supplies is a factor of regional competitiveness. Many economic activities, such as agriculture, electricity generation and tourism, consume large quantities of water but at the same time are dependent on both the maintenance of supplies and the preservation of the environment in order to continue in operation.

Water, however, is scarce and in a number of regions, the amount abstracted annually is at or above critical levels (20% or more of the total resources) so threatening local eco-systems. Periodic droughts, such as in the summer of 2003, can add to this pressure. Regions in the south of the EU, especially island regions, tend to be the worst affected and a number are dependent to a large extent on water from the sea and on imports.

Consumption of water is especially high in the south of Europe, in the Cohesion countries and Objective 1 regions in Italy. In many regions in Spain and Greece, it exceeds 270 litres a head a day and poses a major challenge to public authorities. In the accession countries, consumption is generally below the EU15 average, though less so in Bulgaria and Romania.

Sustainable management of water uses needs to be based on the principle of integrated river basin management — in line with the Water Framework Directive — which means limiting abstraction in line with availability, ensuring reasonable prices and involving people in tackling problems.

Following the adoption of the Urban Waste Water Treatment Directive in 1991, there was substantial investment across the EU in the construction and maintenance of infrastructure and, as a result, recovery of waste water has increased significantly during the past decade. Nevertheless, there are still marked differences between countries and regions. The proportion of population connected to waste water treatment plants remains relatively small in Objective 1 regions and Cohesion countries, at only around 50% as compared with 80–90% in the Nordic countries. The proportion is also relatively small in many accession countries.

Waste

Each year, 1.3 billion tonnes of waste are generated in the EU, giving rise not only to loss of resources but also to major environmental problems if disposed of by landfill or incineration instead of being recycled, which Community policy is aimed at encouraging.

Though agriculture and industrial activities remain large producers of waste, municipal waste has continued to increase in the EU15 over the past decade, though in a few Member States it has fallen.

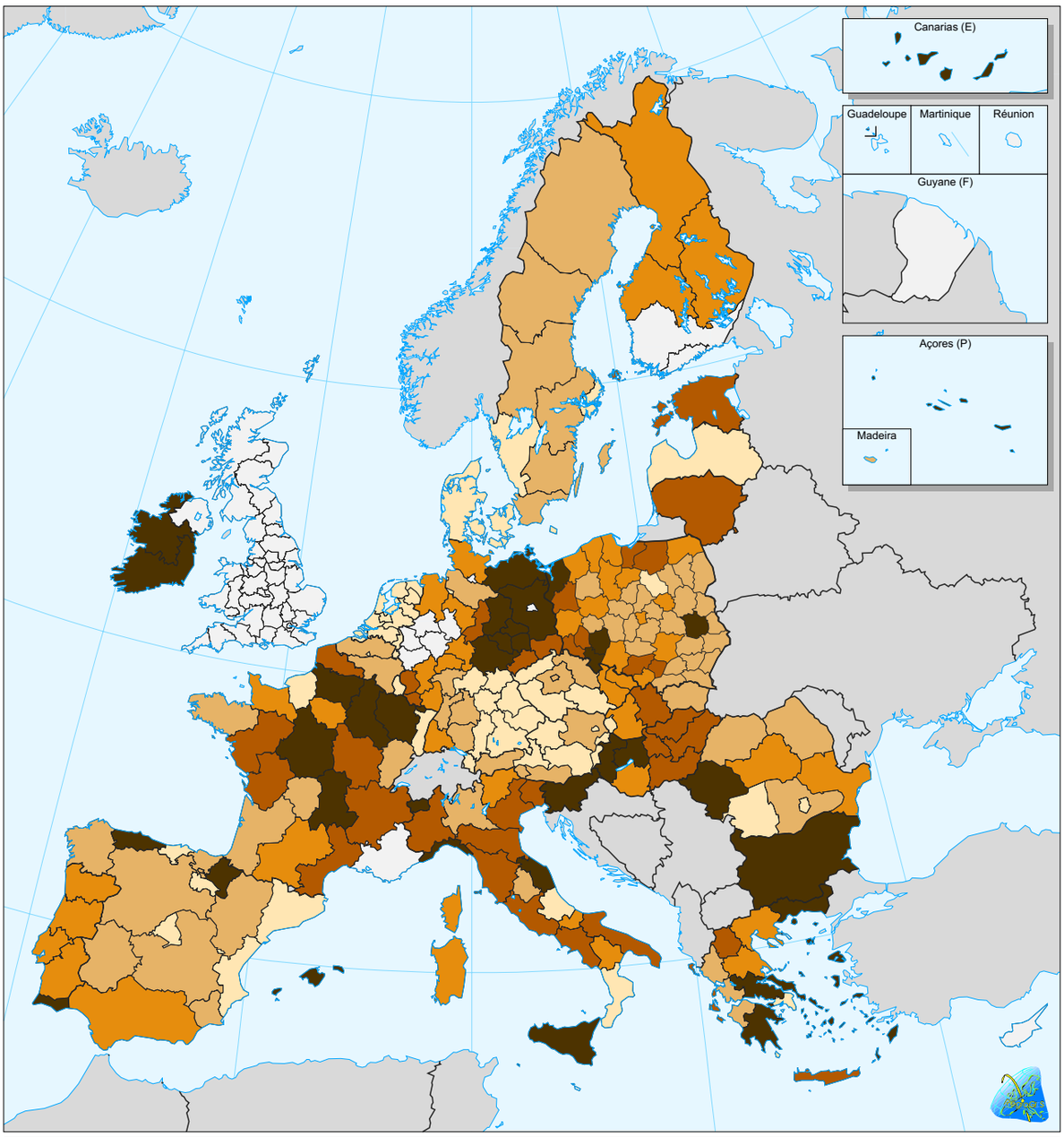
On average around 480 kgs of municipal waste per head of population is collected each year in the EU. In Objective 1 regions taken together, the figure is much the same, but in the Cohesion countries, it is significantly larger (550 kgs per head). In the accession countries, on the other hand, in part reflecting their lower real income levels, it is smaller (just below 400 kgs).

Half of the waste produced is disposed of through landfill in the EU, so contributing to increased greenhouse gases and other emissions. Whereas the average amount of waste in the EU15 which is landfilled is under 300 kgs per head, in the Cohesion countries, it is around 340 kgs and in Objective 1 regions taken together, 380 kgs. Levels are higher in the accession countries. Recycling, which is beneficial for the environment (and can have a net positive effect on employment and economic activity) and which has been encouraged by several Directives, is still of minor importance (Map 1.12). Community waste policy is geared towards promoting prevention, recycling and re-use rather than final disposal.

Climate Change

Climate change is caused by man-made greenhouse gases, the most prominent of which come from emissions of carbon dioxide from the combustion of fossil fuels. Among the most visible effects of climate change are summer heat waves, which can cause forest fires and devastate crops as well as increasing mortality rates (the summer of 2003 provides a forcible reminder of the effects). It can also increase the frequency of extreme weather events, such as droughts, floods and violent storms. Measures introduced or proposed at Community level, such as the Directive on Integrated Pollution Prevention and Control (IPPC) and the framework legislation on national air emission ceilings, enable policy-makers to take account of variations in local conditions.

Ten of the 15 present Member States are a long way from achieving their agreed share of the emissions target to meet the commitment under the Kyoto protocol (to reduce emissions by 8% as compared with 1990 by 2010). These include all the Cohesion countries. (In Ireland, in particular, emissions in 2001 were



1.12 Municipal waste disposed of by landfill

Kg per capita

- < 150
- 150 - 250
- 250 - 350
- 350 - 450
- > 450
- no data

EU14* = 291
* Based on BE, DE, FR: 1996; DK, EL, LU, AT, PT, FI: 1999;
ES: 2000; IE, IT, SE: 1998; NL:1997
BG, DK: NUTS0
BE: NUTS1

Source: Eurostat

0 100 500 km

31% higher than in 1990, as against the increase of 13% allowed between 1990 and 2008–2012 — Table A1.10).

In the accession countries, emissions declined by much more than in the EU over the 1990s, principally because of the large decline in heavy industries.

The differences between countries in terms of the main sources of emissions are revealing. While energy production in the accession countries contributes more than half of total emissions, because of the greater reliance on fossil fuels, in the Cohesion countries and the rest of the EU, it contributes less than a third. On the other hand, transport accounts for 21% of emissions in both the Cohesion countries and the EU15 as whole (a figure which has grown during the past decade) but for only 8% in the accession countries, though this is set to increase rapidly as road transport and the use of cars expand (Table A1.11).

Biodiversity

Around two-thirds of the European wetlands that existed 100 years ago have been lost. Urban sprawl, on the one hand, and abandonment of land as result of economic restructuring in peripheral areas and the accession countries, on the other, pose an ongoing threat to biodiversity.

Natura 2000 is aimed at preserving habitats and birds life in Europe through the establishment of a network of protected natural areas, encompassing more than 20,000 sites which have been either designated or proposed. These cover almost 15% of the total land area of the EU15 and the number of sites will increase with enlargement.

Environmental standards are an integral part of economic, social and territorial cohesion

Different environmental standards can create new dividing lines between those living in a clean and healthy environment and those who do not. If standards are respected, they can make regions more attractive to investors while improving the quality of life for the people living there.

In the EU15, priority in the past has tended to be accorded to economic rather than environmental objectives. Although the relative importance attached to the latter has varied markedly, cohesion policy has generally had stronger effects on economic and social indicators than on the environment.

Nevertheless, cohesion policy has helped the less prosperous Member States to comply with the EU environmental requirements (particularly as regards the directives for waste management, water supply and urban wastewater which involve heavy investment in infrastructure) and can continue to do so in the coming years when attention will focus on preventing air pollution. The growth of transport is a particular concern in this regard, since unless there is a shift to more environmentally-friendly means, economic growth will continue to be accompanied by increasing emissions.

This is particularly relevant for the accession countries, where the pent-up demand for cars and the poor state of the railways threatens to give rise to a substantial growth in road use and consequent emissions.

In the coming years, special attention needs to be given to sustainable development, in particular by:

- helping the new Member States achieve full compliance with the *acquis*, particularly as regards the Directives on waste management, water supply, urban wastewater and air quality which entail substantial investment;
- supporting the development of eco-industries and the use of cleaner technologies, especially in SMEs;
- rehabilitating derelict industrial sites instead of developing new greenfield ones;

- providing incentives for the use of cleaner methods of transport and vehicles as well as for the use of renewable energy;

- helping regions most exposed to natural hazards to develop preventative measures;

- stimulating investment for promoting biodiversity and nature protection;

- ensuring adequate water and waste management in areas with geographical handicaps and sufficient protection of their natural resources, so improving their attractiveness for business expansion and inward investment.

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1 Those in which Gross National Product per head was below 90% of the EU average, in the early 1990s.
2 See the European Commission's economic forecasts, Autumn 2003.
3 Regional data for GDP per head are available only up until 2001.
4 These figures do not include the effect of German unification and the substantial growth of GDP in the new Länder between 1991 and 1994.
5 See European Commission, Employment in Europe 2002 and European Competitiveness Report 2002.
6 United Nations, Demographic projections, 2002
7 Those at risk of poverty are defined as having an "equivalised income" (which takes into account the household size and composition) below 60% of the national median level. Social transfers in this case do not include retirement or survivors' pensions, which are treated as acquired rights resulting from previous contribution and counted as income before transfers.
8 It is important to bear in mind limitations to the data when comparing the relative risk of poverty by household type. In particular, the income figures do not include imputed rent — or money saved by people by owning the accommodation in which they live — or interest receipts. Both of these items will tend to reduce the relative risk of poverty of older people, who are more likely to own their accommodation (though the extent of this varies between countries) and who have often accumulated savings which earn interest.
9 See, in particular, Regions: Statistical yearbook, 2003, European Commission, Luxembourg, 'Household accounts'.
10 In total 1595 urban areas with a population of over 50,000 were examined in the enlarged EU in terms of population, their attractiveness to businesses and their sectors of economic activity.
11 Highlands and Islands with only just over 9 inhabitants per square km is the only other region outside of Sweden and Finland where the population density is under 10.
12 GDP growth has also been relatively low over this period in the Highlands and Islands and both employment and population have declined.
13 Density is measured by a composite index which indicates a region's endowment (arithmetic average of the ratios of length of roads relative to land area and relative to population), expressed relative to the EU average.
14 The European Employment Strategy Guidelines recommend that there should be sufficient day nursery and pre-school places conveniently located to enable all women to work if they so choose.
15 See Part 2 below.
16 See Employment in Europe 2002, pp 115-133.
17 The target set at the Lisbon Summit is to halve the proportion of those aged 18 to 24 with low education who are not receiving training by 2010.
18 From the Continuing Vocational Training Survey, Eurostat, 2002.
19 State aid is considered as direct transfers to enterprises under the form of grants, tax exemptions, equity participation, soft loans, tax deferrals and guarantees calculated so as to harmonise the state aid component data into a common comparable indicator across countries.
20 The regional dimension of the European Research Area, COM(2001) 549 final.
21 According to a recent business survey in Greece, Spain and Portugal, most managers considered that advanced technologies they might need were better available elsewhere than in their own country.
22 Estimates based on Labour Force Survey data on size of local unit which are aligned with data from the Structure of Business Statistics on size of enterprise.
23 Innobarometer 2001, Flash Eurobarometer 100, 2002.
24 See Productivity: The Key to Competitiveness of European Economies and Enterprises, COM(2002) 262 final, which shows that net job creation was concentrated in high-tech and high-education sectors in the EU between 1995 and 2000, p.13.

25 Data from European Commission, Telecommunications Regulatory Package — VIII Implementation Report — Annex 1, December 2002.

26 As it becomes increasingly apparent that competitive ADSL offers are unlikely to spread to 'unprofitable' and peripheral regions in Europe, governments and regional authorities are faced with the problem of how to ensure these regions have access to broadband. Some commentators have suggested that wireless-based technology will provide the solution in more remote areas, since its does not involve high engineering costs. However, the technology is not free, since it has to be based either on satellite or terrestrial networks, both of which entail continuing as well as initial costs. Nevertheless, wireless offers the potential at least of closing the digital divide between regions.

27 *eEurope Benchmarking Report*, COM(2002) 62 final, 2002.

28 Regional Innovation Strategies financed by the Structural Funds.

29 Conclusions of the Chair, OECD High level Meeting, Martigny, Switzerland, July 2003.

Statistical annex to Part 1

A1.1 Employment rates in EU15, 1996 and 2002

% of working-age pop.

	1996	2002
EU15	59.9	64.2
Other Member States	61.7	65.1
Cohesion countries	51.5	60.2
Greece	54.9	56.9
Spain	47.6	58.4
Ireland	54.9	65.0
Portugal	62.3	68.6

Source: Eurostat, LFS

A1.2 Change in GDP, employment, productivity and population in groups of Objective 1 regions, 1994-2001

Annual average % change

	GDP	Employed	GDP/employed	Population	GDP per head
All Objective 1	3.0	1.4	1.6	0.0	2.8
PT and EL	3.5	1.2	2.3	0.4	3.1
IE	9.3	5.0	4.0	1.0	8.2
ES Objective 1	3.4	2.9	0.5	0.4	3.0
ES non-Objective 1	3.6	2.6	1.0	0.4	3.2
DE Objective 1	1.7	-0.3	2.0	-0.5	2.2
DE non-Objective 1	1.6	0.8	0.8	0.3	1.3
IT Objective 1	1.9	0.3	1.6	0.0	1.9
IT non-Objective 1	2.1	1.2	0.9	0.3	1.8
Other Objective 1	2.4	1.7	0.6	0.1	2.2
EU15	2.5	1.3	1.2	0.3	2.2

Source: Eurostat, Regional accounts and DG REGIO calculations

A1.3 The statistical effect in Objective 1 regions (based on GDP per head in PPS, average 1999–2001)

	In EU15	In EU15	In N10	In EU25
All variables relative to average GDP per head in EU15 or EU25 as specified:	*EU15*	*EU25*	*EU25*	*EU25*
Number of regions falling below 75% of average GDP/head	50	33	36	69
Population in these regions (millions)	73	54	69	123
Population as % of EU15/N10	19.2	14.2	92.4	
Population as % of EU25		11.9	15.2	27.1
Average GDP/head (PPS) of these regions as % EU15/EU25 average	65.1	69.3	46.0	56.2

N10: new Member States
Source: Eurostat, Regional accounts and calculations DG REGIO

A1.4 Structure of employment rates in accession countries and the EU, 2002

% of population employed 15-64

	A. accession countries	B. Obj. 1 regions	C. non-Obj.1 regions	Difference B-A	Difference C-A
Agriculture	10.7	5.2	1.9	-5.5	-8.8
Mining, gas, electr., water	1.9	0.7	0.7	-1.2	-1.2
Basic manufacturing	8.9	6.5	7.8	-2.4	-1.1
Chemicals and refining	0.6	0.4	1.0	-0.2	0.4
Engineering industries	2.8	1.7	4.5	-1.1	1.7
Construction	3.4	6.4	4.8	3.0	1.4
Basic services	14.2	17.4	20.5	3.2	6.3
Advanced services	3.3	4.3	9.1	1.0	5.8
Communal services	6.9	7.4	11.4	0.5	4.5
Public administration	3.4	4.8	4.9	1.4	1.5
Total employment rate	56.2	54.9	66.7	-1.3	10.5
Agriculture	10.7	5.2	1.9	-5.5	-8.8
Industry	17.7	15.8	18.8	-1.9	1.1
Services	27.8	34.0	45.9	6.2	18.1

Source: Eurostat, LFS

A1.5 Unemployment rates in EU15, 1996 and 2002

% of labour force

	1996	2002
EU15	10.7	7.8
Other Member States	9.5	7.5
Cohesion countries	17.0	9.6
Greece	9.7	10.0
Spain	22.3	11.4
Ireland	11.9	4.3
Portugal	7.4	5.1

Source: Eurostat, LFS

A1.6 Population at risk of poverty, 2000*

% of households within each type

		BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU15
Without children	**Single adults 30-64**	14.6	35.0	18.8	15.0	21.0	17.7	33.0	16.0	10.2	18.9	12.7	28.0	30.7	24.1	21.2	17.8
	Single adults >64	27.0	40.0	19.0	38.0	43.0	27.0	79.0	29.0	7.0	3.0	35.0	46.0	45.0	17.0	35.0	29.0
	Couples - at least one >64	26.0	22.0	7.0	36.0	24.0	16.0	37.0	14.0	8.0	5.0	18.0	32.0	8.0	4.0	17.0	16.0
	Couples - both <65	8.0	5.0	8.0	17.0	14.0	11.0	14.0	12.0	6.0	4.0	10.0	13.0	5.0	5.0	9.0	10.0
	3 adults	8.0	7.0	5.0	18.0	8.0	12.0	8.0	15.0	5.0	9.0	7.0	10.0	10.0	:	5.0	9.0
With children	**Single adult**	25.0	10.0	36.0	37.0	42.0	35.0	42.0	23.0	35.0	45.0	23.0	39.0	11.0	16.0	50.0	35.0
	Couple	8.9	4.9	11.0	14.0	24.7	14.4	26.2	21.7	16.2	11.2	10.2	20.2	5.0	7.2	15.8	15.7
	3 adults	15.0	4.0	11.0	23.0	18.0	14.0	10.0	24.0	26.0	18.0	9.0	23.0	7.0	:	13.0	16.0
All households		13.0	11.0	11.0	20.0	19.0	15.0	21.0	19.0	12.0	11.0	12.0	20.0	11.0	10.0	17.0	15.0

** Households with income per head less than 60% of median household income in the country concerned.*
Source: Eurostat, ECHP, November 2003

A1.7 Household composition of population at risk of poverty, 2000*

% of all households at risk of poverty

		BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU15
Households at risk of poverty																	
Without children	**Single adults 30-64**	5.0	19.8	16.0	2.0	3.0	6.9	6.0	2.0	5.0	15.0	8.0	1.0	33.0	32.7	8.2	9.0
	Single adults >64	11.0	16.8	13.0	8.8	6.0	7.8	14.0	7.1	3.0	2.0	17.0	6.1	23.0	10.9	14.3	10.0
	Couples - at least one >64	7.0	9.9	8.0	5.9	5.0	7.8	3.0	4.0	7.0	7.0	9.0	4.0	6.0	7.9	8.2	7.0
	Couples - both <65	24.0	24.8	6.0	20.6	11.0	11.8	9.0	7.1	6.0	4.0	10.0	12.1	6.0	4.0	11.2	10.0
	3 adults	7.0	5.0	8.0	18.6	9.0	8.8	5.0	19.2	7.0	7.0	10.0	10.1	7.0	0.0	4.1	9.0
With children	**Single adult**	6.0	2.0	7.0	2.9	3.0	7.8	5.0	1.0	4.0	15.0	5.0	3.0	3.0	12.9	17.3	7.0
	Couple	30.0	18.8	29.0	24.5	37.0	41.2	45.0	38.4	43.0	39.0	26.0	32.3	18.0	31.7	29.6	34.0
	3 adults	10.0	3.0	13.0	16.7	26.0	7.8	13.0	21.2	25.0	11.0	15.0	31.3	4.0	0.0	7.1	14.0
All households		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

** Households with income per head less than 60% of median household income in the country concerned.*
Source: Eurostat, ECHP, November 2003

A1.8 Areas with geographical constraints: main indicators, 2001

	Islands (1)	Outermost regions	Sparsely populated regions (2)	EU 15 average (2)	Objective 1 Regions (2)	Mountain regions (3)	
						EU 15 (3, 4)	N12 (5)
Total population (1000 inh.)	9423	3943	2122	379604	82912	66789	18541
Area (km²)	94466	99638	424022	3243415	1027018	1322910	240960
Population density (inh./km²)							
Average	99.8	39.6	5.0	117.0	80.7	50.5	76.9
Minimum	8.5	2.0	3.3	2.0	2.0	:	:
Maximum	336.5	343.3	9.7	8648.1	4571.0	:	:
GDP/head (PPS) (EU-15=100)							
Average	71.7	68.4	87.6	100.0	67.1	:	:
Minimum	60.0	48.2	75.7	48.2	48.2	:	:
Maximum	141.6	78.4	96.8	263.4	94.7	:	:
Unemployment rate (%)							
Average	16.1	16.1	10.4	7.8	14.2	8.9	12.1
Minimum	2.9	2.5	5.9	2.5	2.5	:	:
Maximum	20.1	29.3	14.1	29.3	29.3	:	:
Employment by sector (% of tot. empl.)							
Agriculture	10.5	5.3	6.4	4.0	9.0	5.6	15.8
Industry	20.8	19.4	24.6	28.2	28.2	34.3	37.2
Services	68.7	75.3	69.0	67.7	62.8	60.1	47.0

(1) island NUTS 2 or NUTS 3 regions
(2) defined at NUTS 2 level
(3) unemployment data does not include EL, employment data does not include ES and EL
(4) employment data does not include the French overseas departments
(5) unemployment and employment data include only BG, CZ, HU, RO, SI, SK
Source: all data from EUROSTAT except Mountain regions from the study 'Mountain Areas', (defined at NUTS 5 level) adjusted to be comparable with Eurostat data

A1.9 State aid to R&D and manufacturing, average 1999-2001

	State aid to manufacturing	State aid to R&D in manufacturing	Employment in manufacturing	State aid to manufacturing per person employed in sector		State aid to R&D per person employed in manufacturing		State aid to R&D as % of total state aid to manufacturing
	EUR million	EUR million	1000	EUR/employed	Index, EU15=100	EUR/employed	Index, EU15=100	%
EU15	23460	4513	30077	780	100	150	100	19.2
BE	639	152	652	979	125	234	156	23.9
DK	770	81	436	1766	226	186	124	10.5
DE	8733	1500	8105	1077	138	185	123	17.2
EL	490	7	605	809	104	12	8	1.4
ES	1100	286	2914	378	48	98	65	25.9
FR	3898	830	3779	1032	132	220	146	21.3
IE	498	18	302	1650	212	59	40	3.6
IT	3842	710	5161	745	95	138	92	18.5
LU	35	7	33	1066	137	225	150	21.1
NL	651	176	1059	615	79	166	111	27.0
AT	454	219	672	676	87	326	217	48.2
PT	231	27	966	239	31	28	19	11.7
FI	391	154	452	865	111	341	228	39.5
SE	405	67	768	527	68	87	58	16.5
UK	1323	279	4173	317	41	67	45	21.1

Source: DG COMP, State Aid Scoreboard

A1.10 Greenhouse gas emissions, 2000

	Index, base year 1990=100*	Kyoto target
EU15	96.0	92.0
BE	106.0	92.5
DK	99.0	79.0
DE	81.0	79.0
EL	124.0	125.0
ES	135.0	115.0
FR	98.0	100.0
IE	124.0	113.0
IT	104.0	93.5
LU	55.0	72.0
NL	103.0	94.0
AT	103.0	87.0
PT	130.0	127.0
FI	96.0	100.0
SE	98.0	104.0
UK	87.0	87.5
N10	69.0	:
BG	49.4	92.0
CY	140.0	:
CZ	76.4	92.0
EE	45.4	92.0
HU	82.4	92.0
LT	46.3	92.0
LV	34.1	92.0
MT	*129.0*	:
PL	68.1	92.0
RO	61.9	94.0
SI	*99.3*	*94.0*
SK	66.9	92.0

**Based on CO_2 equivalents; figures in italics are provisional Eurostat estimates*
Source: European Environmental Agency (EEA) and Eurostat

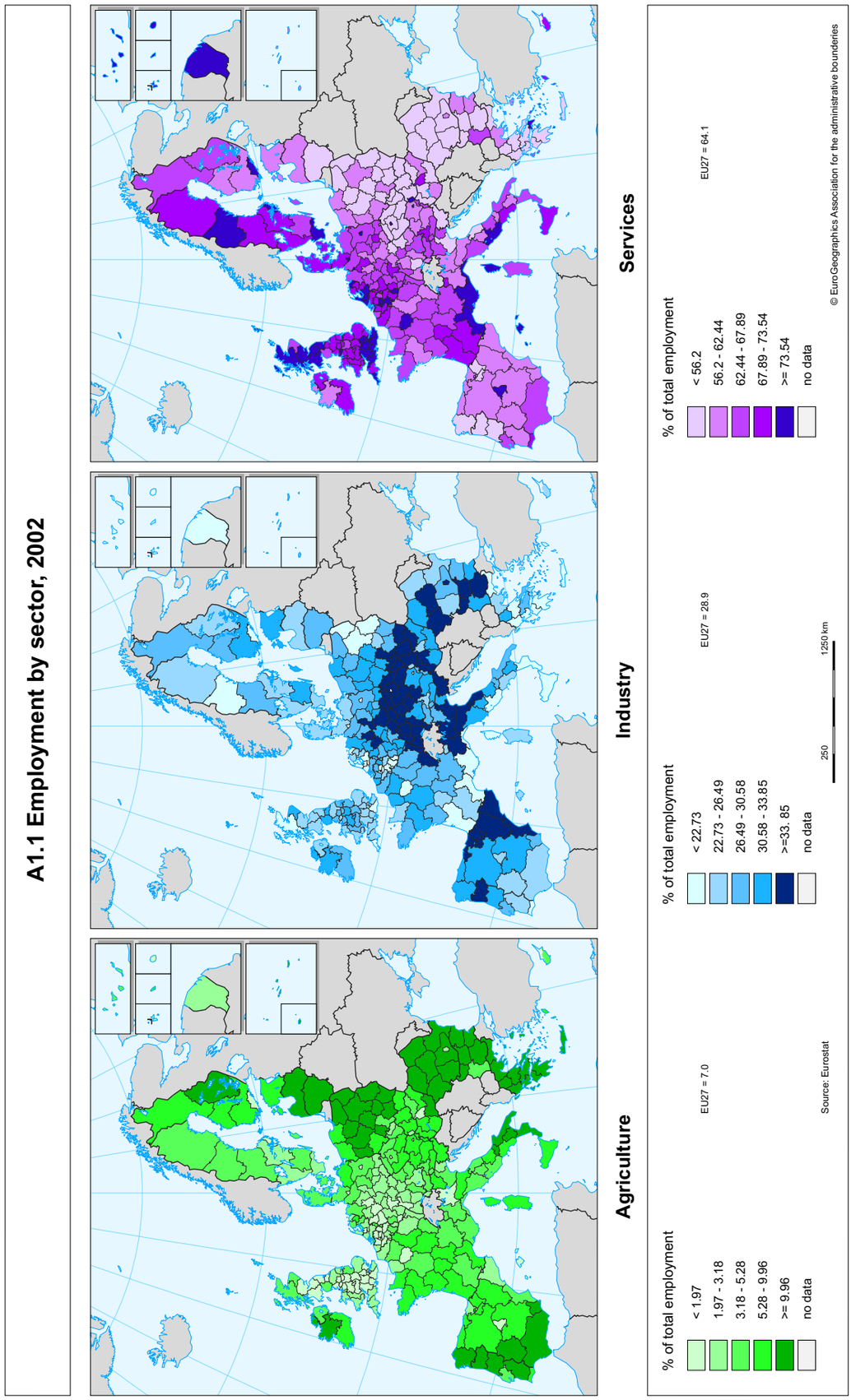
A1.11 Greenhouse gas emissions by broad sector, 2001

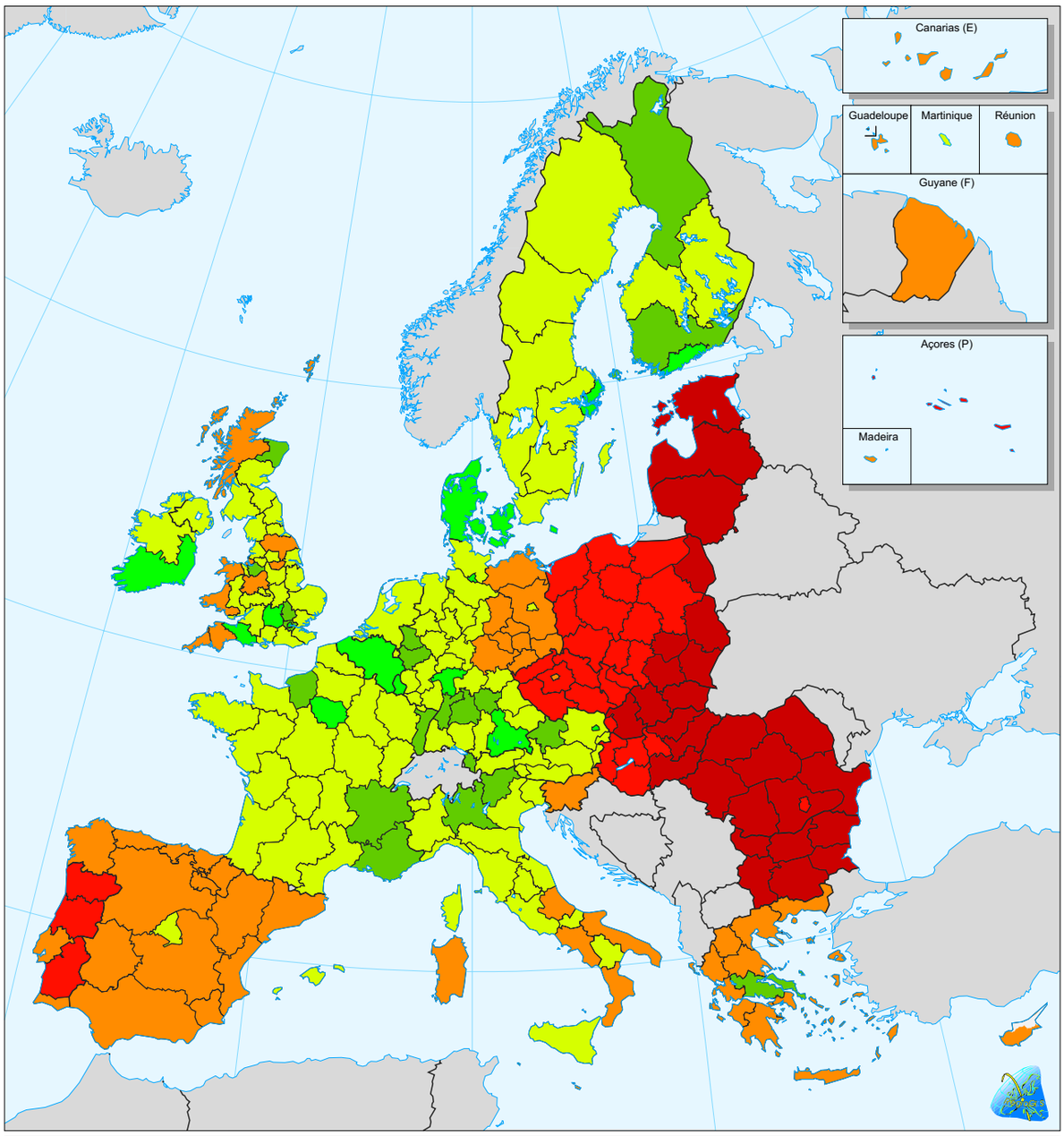
% of total emissions

	Acceding Countries	Cohesion countries	EU15
Energy and related	53.0	31.0	29.0
Industry	17.0	21.0	21.0
Transport	8.0	21.0	21.0
Agriculture	9.0	13.0	10.0
Waste	4.0	4.0	3.0
Other	9.0	10.0	16.0

Source: European Environmental Agency (EEA)

A1.1 Employment by sector, 2002





A1.2 GDP per person employed (EUR), 2001

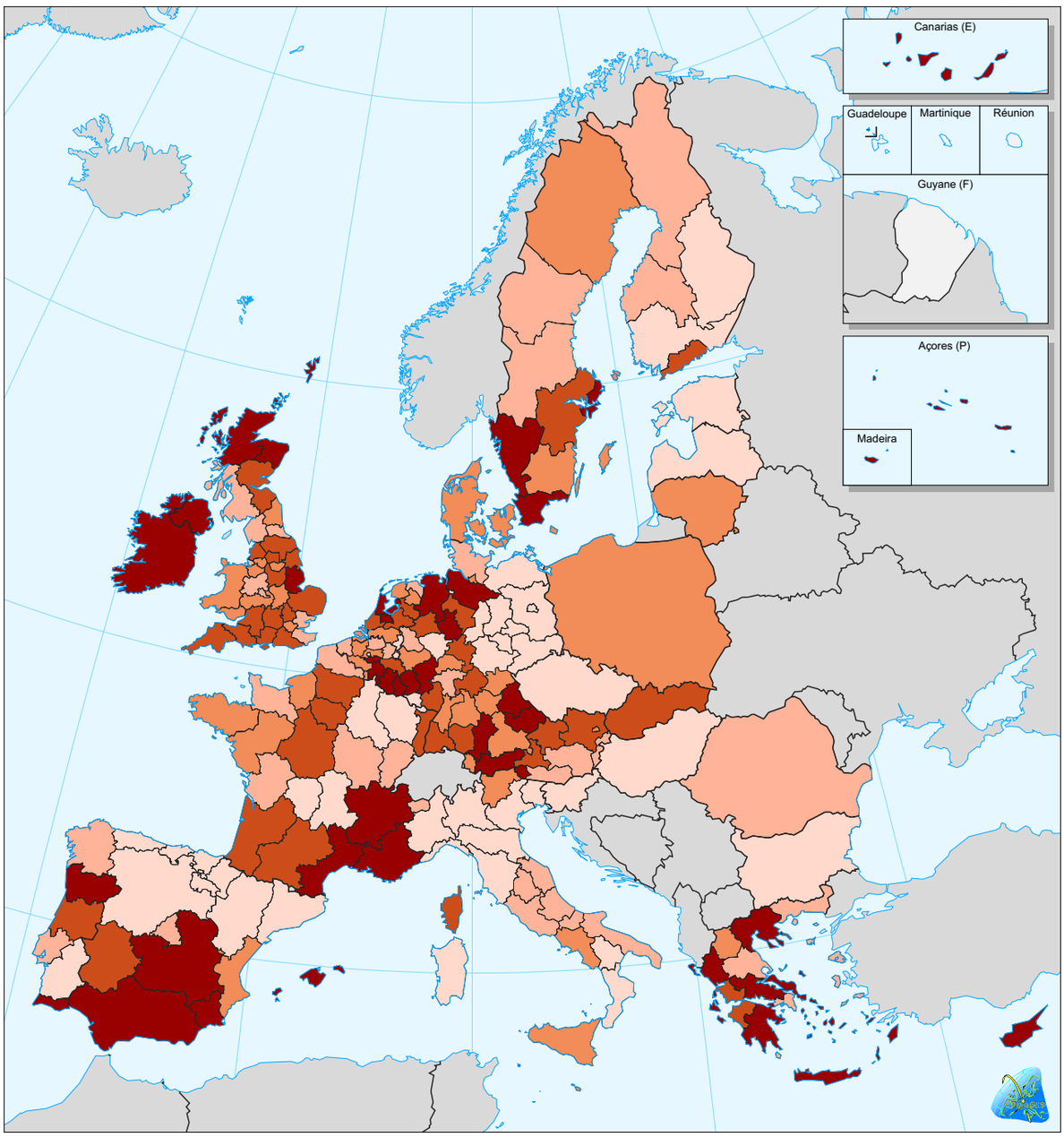
Index, EU25 = 100

- < 25
- 25 - 50
- 50 - 100
- 100 - 120
- 120 - 130
- >= 130
- no data

BE, NL: NUTS0

Sources: Eurostat and National Statistical Offices

0 100 500 km



A1.3 Change in working-age population (15-64), 2000-2025

Total % change

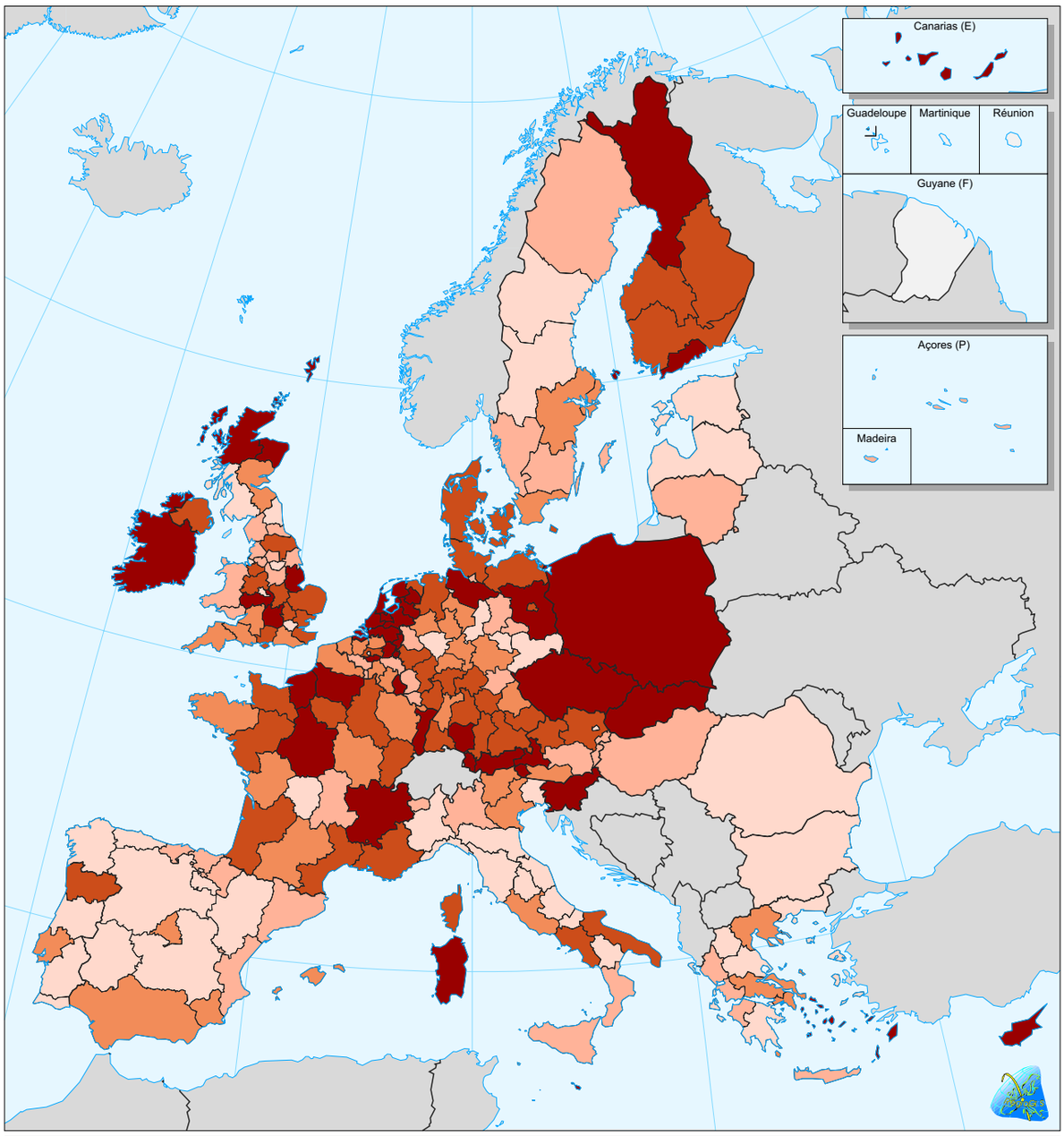
- < -8.1
- -8.1 – -3.42
- -3.42 – 0.48
- 0.48 – 3.97
- >= 3.97
- no data

EU27 = -3.5

BG, CZ, HU, PL, RO; SK: NUTS0

Sources: Eurostat, UN

0 100 500 km



A1.4 Change in old-age population (65+), 2000-2025

Total % change

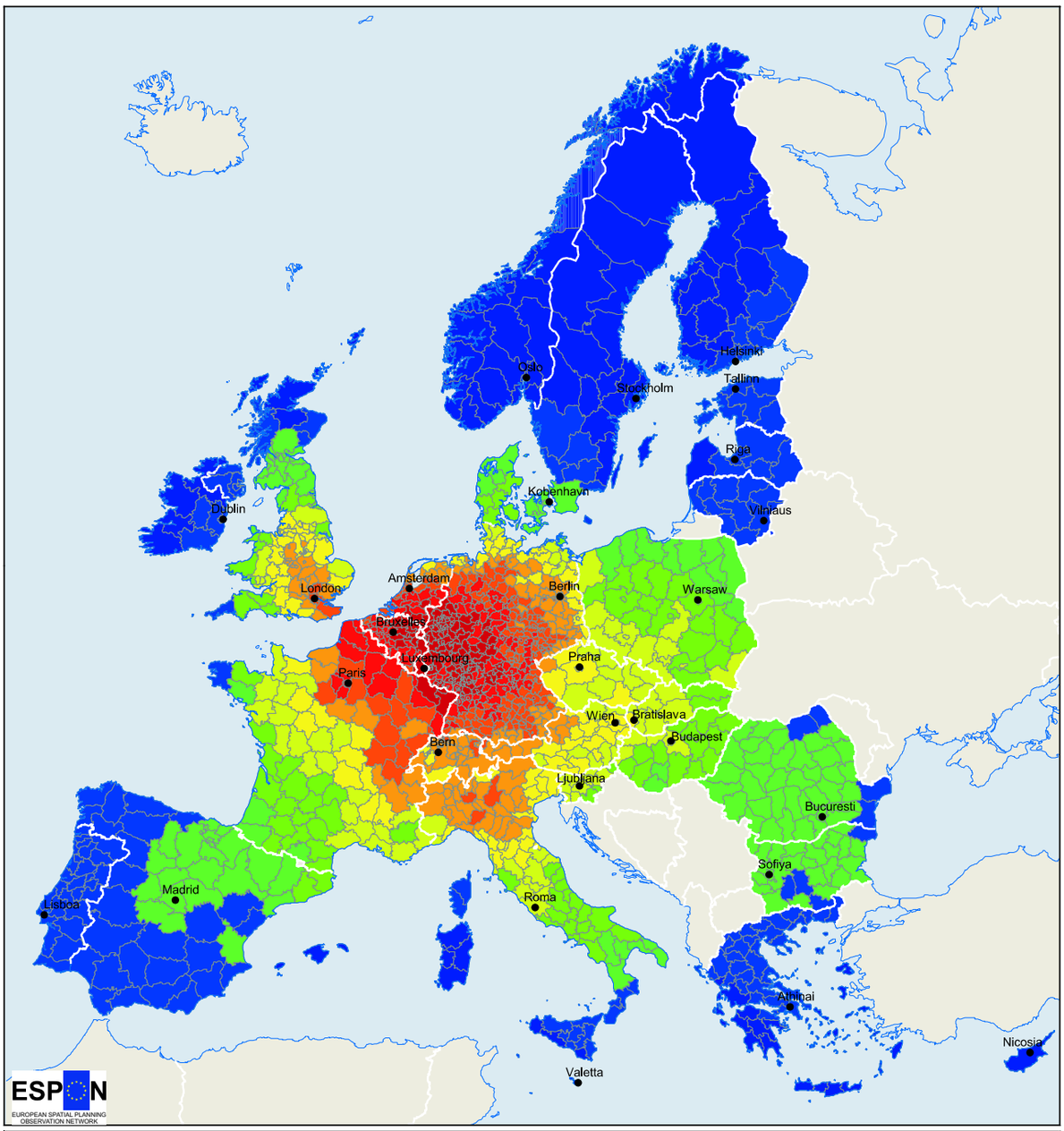
- < 27.41
- 27.41 - 36.9
- 36.9 - 44.97
- 44.97 - 57.49
- >= 57.49
- no data

EU27 = 40.5

BG, CZ, HU, PL, RO, SK: NUTS 0

Sources: Eurostat, UN

0 100 500 km



A1.5 Potential accessibility by road, 2001

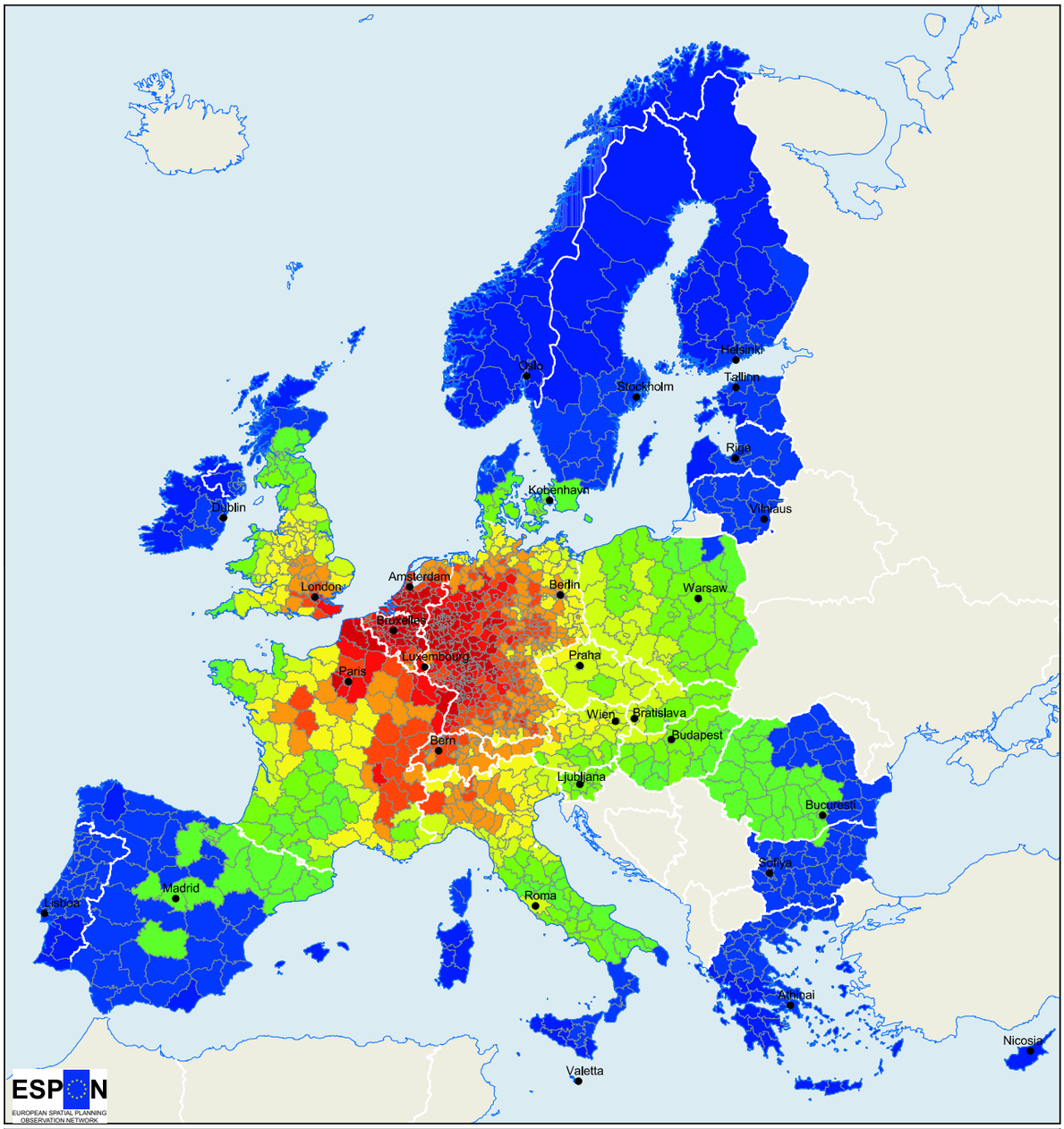
Accessibility index, EU27 = 100

- 0 < 20
- 20 < 40
- 40 < 60
- 60 < 80
- 80 < 100
- 100 < 120
- 120 < 140
- 140 < 160
- 160 < 180
- 180 and more

Source: ESPON Data Base
Origin of data: Spiekermann & Wegener (S&W)

This map does not necessarily reflect the opinion of the ESPON Monitoring Committee

0 100 500 km



A1.6 Potential accessibility by rail, 2001

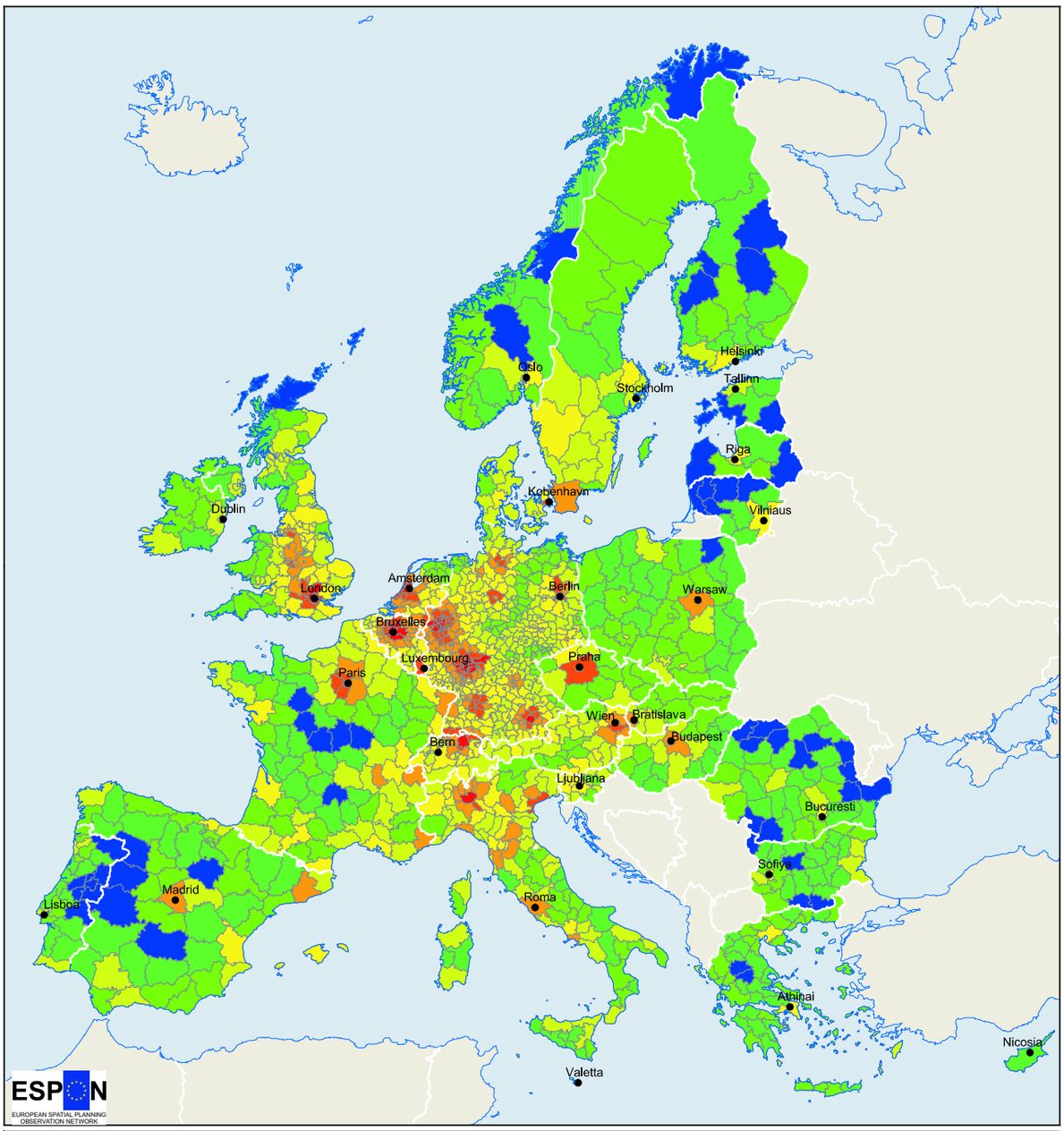
Accessibility index, EU27 = 100

- 0 < 20
- 20 < 40
- 40 < 60
- 60 < 80
- 80 < 100
- 100 < 120
- 120 < 140
- 140 < 160
- 160 < 180
- 180 and more

Source: ESPON Data Base
Origin of data: Spiekermann & Wegener (S&W)

This map does not necessarily reflect the opinion of the ESPON Monitoring Committee

0 100 500 km



A1.7 Potential accessibility by air, 2001

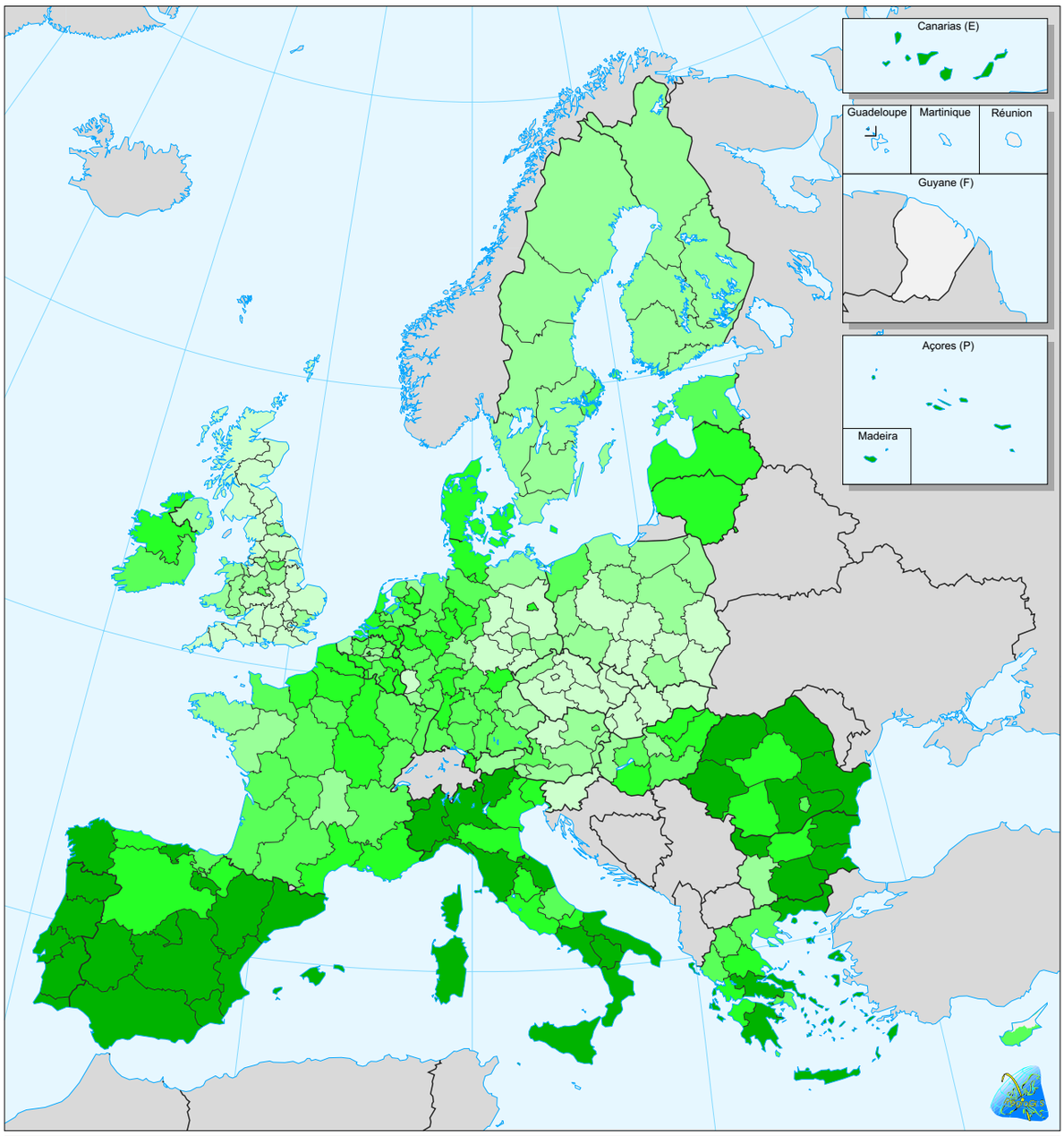
Accessibility index, EU27 = 100

- 0 < 20
- 20 < 40
- 40 < 60
- 60 < 80
- 80 < 100
- 100 < 120
- 120 < 140
- 140 < 160
- 160 < 180
- 180 and more

Source: ESPON Data Base
Origin of data: Spiekermann & Wegener (S&W)

This map does not necessarily reflect the opinion of the ESPON Monitoring Committee

0 100 500 km



A1.8 Early school-leavers, 2002

% of population 18-24

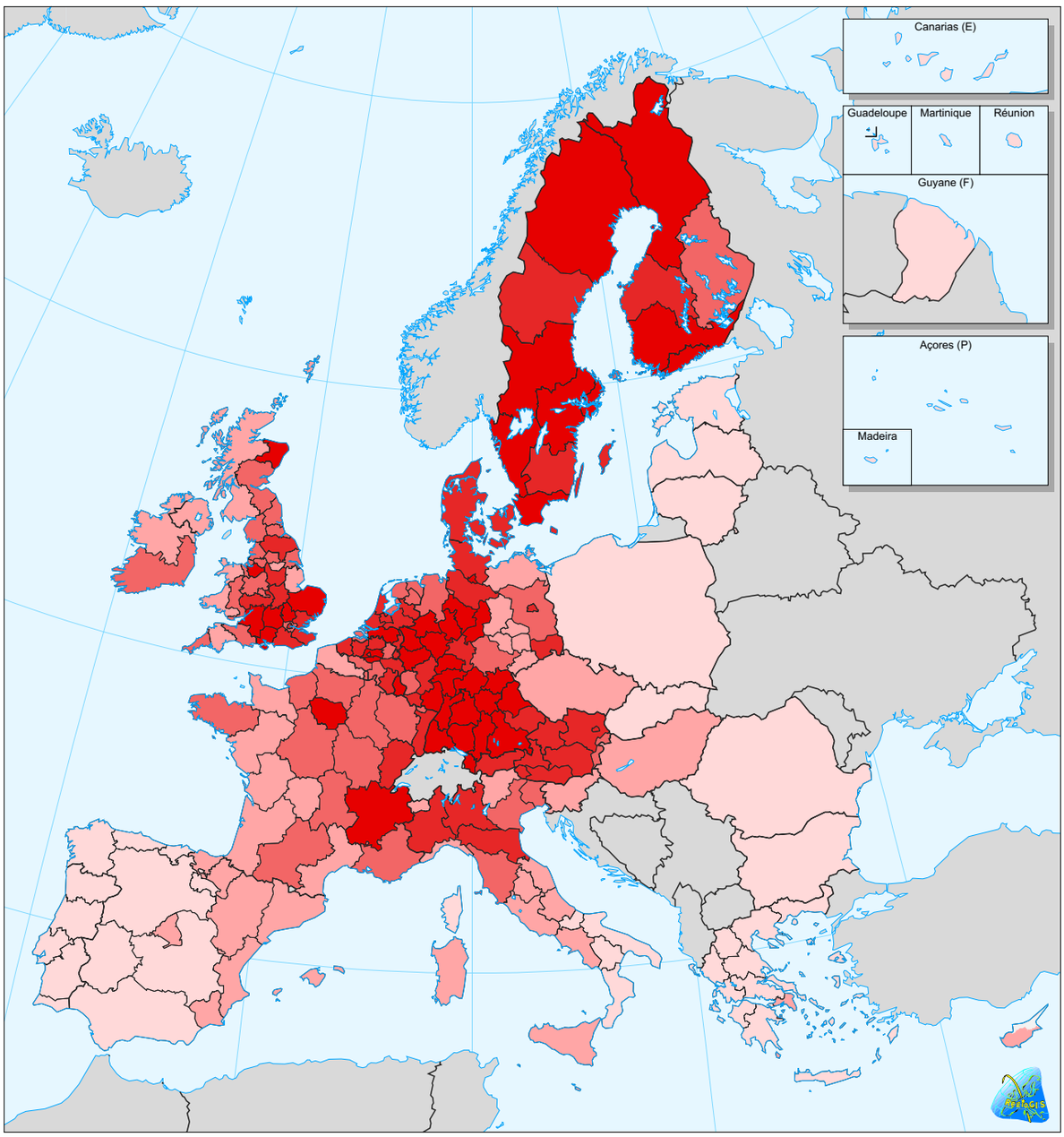
- < 7.7
- 7.7 - 11.1
- 11.1 - 14.3
- 14.3 - 21
- >= 21
- no data

EU27 = 16.4

Population aged 18-24 with lower secondary education and not in education or training

Source: Eurostat

0 100 500 km



A1.9 EPO patent applications, average 1999-2001

Applications per million inhabitants

- < 10.89
- 10.89 - 63.28
- 63.28 - 111.29
- 111.29 - 200.24
- >= 200.24

EU27 = 120.5
BG, CZ, HU, PL, RO, SK: NUTS0

EPO: European Patent Office

Source: Eurostat

0 100 500 km

Part 2 — The impact of Member State policies on cohesion

Table of contents

Introduction

The concern of this Part is, first, to examine the regional incidence of national policies involving public expenditure and the way that these are financed in different parts of the Union. Secondly, it is to consider the mechanisms in place in different countries for both redistributing income between regions and narrowing disparities in regional economic performance. A third concern, given its potentially important effect on strengthening local economies, is to review the relative scale of foreign direct investment (FDI) across the EU and the accession countries and to assess the extent to which national and regional governments are likely to be able to influence its location.

Public expenditure implications of national policies

Virtually all the functions performed by government that involve public expenditure have implications for regional balance in the sense that the expenditure concerned takes place in one region or another without this necessarily being a deliberate policy decision to locate spending in a particular place. They equally, it should be stressed, have implications for local areas within regions in that the same autonomous mechanisms are at work at this level as across countries as a whole.

The amount spent on such policies is a great many times larger than the expenditure financed by the Structural Funds, so that the potential effect on both economic and social cohesion within Member States is considerably greater. As demonstrated below, national policies on public expenditure and the way that spending is funded have a major effect in supporting income levels in less prosperous regions. These policies, however, are, for the most part, not directly targeted at regions, even if they have implications for regional balance. Their focus tends to be as much on immediate social problems and supporting income rather than on strengthening underlying competitiveness.

As such, there is a complementarity between these policies and EU cohesion policy, which is centred on tackling more fundamental structural weaknesses, rather than a conflict between the two. Indeed, despite their relatively small size, the Structural Funds have a crucial role to play in combating regional disparities and in strengthening cohesion.

Public expenditure and cohesion

Even polices which do not involve expenditure directly tend to have indirect implications for spending and through these on cohesion. Within EMU, while the European Central Bank is responsible for monetary policy, national governments are responsible for fiscal policy. One objective of fiscal policy is to help maintain economic stability, to support monetary policy so that it can support growth. The philosophy of the Stability and Growth Pact (SGP) implemented at the time of monetary unification, is to let the automatic stabilisers operate freely over the economic cycle, while at the same time maintaining budgetary discipline in other areas as a permanent feature of EMU.

On the expenditure side of the budget, as distinct from the receipts side, the only item which is expected to react automatically to cyclical fluctuations is spending related to unemployment. Over the next few decades, the progressive ageing of the population will put significant pressure on public spending. Financial discipline, by restraining the growth of spending generally, is a way of ensuring fiscal sustainability in future years.

General macroeconomic performance is not a direct concern of this Part, though it underlies recent trends in overall public expenditure and revenue in Member States as well as changes in the composition of public spending. There is a lack of knowledge about the implications for different regions or for different social groups of fiscal consolidation. While fiscal consolidation has led to reductions in debt interest payments as borrowing has come down, which has potentially freed up financial resources to be spent on other, more socially and economically useful, programmes,

it has, at the same time, put downward pressure on the overall level of spending.

Moreover, although expenditure has generally been reduced relative to GDP as a result of this pressure, the tightening constraint arguably implies an increasing incentive to improve the quality of expenditure programmes, though how far this has resulted in more effective policies for regional cohesion remains an open question. In addition, fiscal adjustment may have curbed economic activity in the short-term to the possible detriment of weaker regions. Even in the short-term, however, fiscal consolidation might be supportive of growth if carried out appropriately and if accompanied by structural reform. In the longer-term, a stable macroeconomic environment created by EMU and the associated policies, is likely to be favourable to growth. All regions stand to benefit from this, even if so far it has not, in the current slowdown, been translated into higher growth rates.

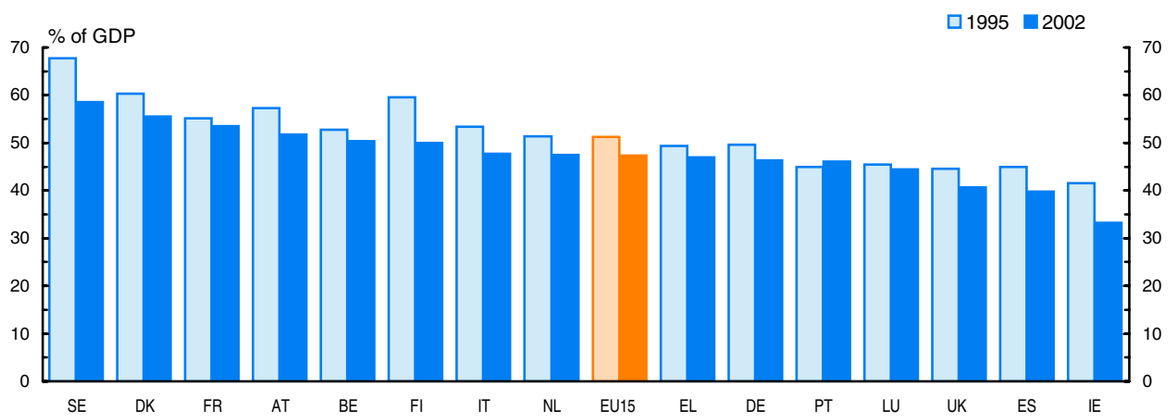
Government expenditure in total, has declined significantly across the EU over recent years. Between 1995 and 2002, it fell, on average, from just over 51% of GDP of Member States to just over 47%, with Portugal alone experiencing any increase (and then by only 1 percentage point) (Graph 2.1 and Table A2.1). This reduction far outweighed the reduction in debt interest payments across the EU (of 2 percentage points). In Italy, where such payments amounted to 12% of GDP in 1995 and where the reduction was particularly pronounced (almost 6 percentage points), all of the fall was reflected in lower expenditure.

While government expenditure was reduced markedly across the EU, government revenue from taxes and other sources declined only slightly in relation to GDP, implying the broad maintenance of tax rates. Except in Ireland, where the growth of GDP was exceptionally high, in no Member State did revenue fall by more than 2% of GDP and in 6 countries, it increased. Budget deficits were, therefore, reduced throughout the Union and, in a number of cases, transformed into surpluses.

Changes in the composition of government expenditure

Apart from the fall in debt interest payments, government expenditure on transfers, whether to individuals or businesses, has also declined in recent years in relation to GDP. Between 1995 and 2002, spending on social benefits (just over 16% of GDP in the EU as a whole) was reduced, on average, by almost 1% of GDP, despite the ageing of the population and the growing number of pensioners. This reduction was partly due to a decline in unemployment but it also reflects a general tendency to limit increases in social

2.1 Public expenditure in Member States, 1995 and 2002



Source: Eurostat, Government sector accounts

benefits wherever possible. The reduction in social benefits, however, was by no means general across the EU, with Germany, Greece and Portugal experiencing significant increases and Italy a smaller rise.

While the share of spending on social benefits going to old-age pensions in the EU has tended to rise over recent years as the number of people in retirement has risen, the share going to the unemployed has generally fallen because of a significant fall in their number. According to the latest data available (for 2000), old-age pensions (here defined to include survivor benefits) account for just over 46% of total social transfers in the EU and significantly below 40% only in the three Nordic countries, where social protection is more extensive than elsewhere, and Ireland, where the number of people above retirement age is relatively small (Table A2.2). Only in Italy, however, is the share over half (63%). By contrast, unemployment benefits represent only just over 6% of total social transfers in the EU and under 10% in all Member States apart from Belgium, Spain, Finland and Denmark, in the first three reflecting the relatively large numbers of unemployed, in the last, the high levels of spending per person.

Other transfers apart from social benefits, including subsidies and support for businesses, fell by more, by 2½% of GDP overall, the decline being especially large in Germany (by almost 7% of GDP) and the Netherlands (by over 4% of GDP). In most other countries, on the other hand, there was either a much more modest fall or little change at all, while in Austria and Portugal, spending on this item rose.

By contrast, current expenditure on goods and services remained much the same, on average, relative to GDP (at just under 21% of GDP). Within this, the share of expenditure going on the wages and salaries of public sector employees fell, partly reflecting the contracting out — or privatisation — of some services. Although the reduction in public sector wage bill relative to GDP did not occur in all Member States, there were significant reductions (of over 1% of GDP) in Germany, Spain, Ireland, Austria and Finland. In Portugal, on the other hand, the public sector wage bill increased significantly relative to GDP.

In comparison with the scale of spending on public sector employment and other current purchases, the amount of public expenditure on investment, on the construction of infrastructure of various kinds, is relatively small throughout the EU. In 2002, it averaged only just over 2% of GDP in the EU and was over 4% of GDP only in Ireland and Luxembourg. Moreover, the amount spent has declined in relation to GDP in recent years. Between 1995 and 2002, it increased more than marginally only in Greece, Ireland and the Netherlands. Nevertheless, the share of total expenditure allocated to fixed investment remained virtually unchanged over this period. This may suggest that in most Member States, public sector infrastructure has not expanded much in recent years and that the stock of public capital may not have been built up as required. Over this period, however, an increasing share of investment in public infrastructure has been carried out by some form of joint public and private cooperation in many Member States. The substitution of private for public investment which this may entail might not necessarily be visible from the figures in the public sector accounts.

The division of public expenditure between these broad categories reflects the functions which governments perform, the services they provide and the type of system for delivering services which is in operation, which varies between countries according to national arrangements. Much of the spending on goods and services, therefore, goes on providing education, health and social services. The way the provision of these services is organised — whether through the direct employment of personnel or through buying in the services they provide, is, therefore, reflected in the size of the public wage and salary bill in relation to other public current purchases of goods and services.

Government expenditure and social cohesion

A large part of public expenditure in EU Member States, on social protection and social services, in

particular, is associated with the European Social Model and, deliberately or not, makes a major contribution to limiting disparities in real income levels and life chances. In 2001 (the data for 2002 are not yet available), some 40% of total government spending across the EU as a whole went on social protection, while another 24% was devoted to education and health care. All of this spending also has implications, as shown below, for the effective distribution of public expenditure between regions, since the amount spent in any region tends largely to be determined by the number of people living there, their age structure and their need for social support.

Over the past few years, in parallel with the decline in overall public expenditure, spending on most government functions and services has also fallen, including on social programmes. Between 1995 and 2001, expenditure on social protection in the EU (here including administrative costs as well as social benefits) fell, on average, by around 1% of GDP, while spending on health and education remained broadly unchanged. This still implies, however, that the share of expenditure going on these three items increased over these 6 years, from 59% of the total to 64%, with the share going on social protection alone rising from 38% to 40%.

Despite the widespread fall in spending on social protection relative to GDP between 1995 and 2001, its share of total expenditure increased in all Member States, except the Netherlands, Finland and Sweden, in the last two of which the level of spending was well above average in 1995.

Expenditure on health care increased relative to GDP in most Member States over this period, with only Luxembourg, Austria and Finland registering a fall. Nevertheless, the share of expenditure going on health care rose in all of these countries, apart from Austria.

There was a more widespread fall in education expenditure relative to GDP over these 6 years, in part reflecting a fall in the number of children of school age, though spending rose in Denmark, Sweden, Italy. Portugal and the UK. Once again, however, the share of expenditure going on education over this period increased in nearly all Member States, the only exceptions being Ireland and Finland, where it fell slightly.

The counterpart of the growth in the share of government expenditure absorbed by education, health and social services is a fall in the share going on general government services (ie administration) and other expenditure, comprising debt interest payments, subsidies and transfers other than social benefits, which includes spending on industrial and regional support, the reduction in which was noted above.

The regional incidence of government expenditure

Most government expenditure which takes place at the regional or local level is a direct consequence of policies determined nationally in relation to the provision of services or income support for people in need. This is the case irrespective of the system of government in place, whether federal or unitary. Although the extent of devolution of responsibility for the provision of services to regional or local authorities varies markedly across the Union according to the degree of decentralisation of political power — which, partly but by no means entirely, reflects whether or not there is a federal or unitary system of government — there is a common concern in Member States to ensure that the level of provision does not differ too much between localities.

In the case of social protection, this is generally achieved by centralising the fixing of rates of benefit and the criteria for eligibility for support, even if the system is administered locally, so that entitlement to benefit and the amount received does not depend, or ought not to depend, on where a person happens to live in a particular country[1].

Similarly for most services, whether for education, health care or policing, minimum standards tend to be set centrally even where operational responsibility and the delivery of services on the ground is vested in local or regional authorities. In several Member

States, too, some attempt is usually made, to take account of regional differences in the composition of the population, and of other factors influencing the needs of the area for a disproportionate volume of public services if common standards of social welfare are to be achieved. This applies, in particular, to education, where the proportion of the population which is of school or college age is clearly relevant, and health and social services, where the relative number of elderly people is an important determinant of need.

Differences in systems of government

Systems of government and the degree of decentralisation of responsibility for policy differ markedly across the EU. In federations, like Germany, Austria or Belgium, a significant amount of responsibility for the implementation of policy in many areas lies at the regional or state level. Although the formulation of policy is in general less decentralised, or is a shared responsibility between levels of government, regional authorities in such countries tend to have some autonomy over the measures implemented to achieve common objectives and may have some discretion over the level of priority given to various aims. Differences in regional and local circumstances can, therefore, be specifically allowed for in the deployment of expenditure. At the same time, as described below, there are mechanisms in place in such countries for preventing wide regional differences in expenditure on public services from arising, These take the form of standards or norms set centrally and of equalisation mechanisms to ensure that the financial resources which regions have access to do not vary too greatly.

Following moves to decentralise government over the last twenty years, regional authorities also have a growing amount of responsibility for discrete areas of policy in Spain and Italy, and in Italy further extensive changes are being introduced. At present, their revenue-raising powers are relatively limited compared with the Länder in Germany or the Nordic countries, though not as compared with the situation in Belgium, where the three regions finance only a small proportion of their expenditure from revenue raised locally. Local authorities have especially extensive responsibility for policy in the three Nordic countries, Denmark, Finland and Sweden. Local income taxes provide much of the revenue to finance them, but are complemented by national schemes that equalise fiscal capacity or provide additional resources.

In France, the UK and other Member States, on the other hand, policy-making is much more centralised, even if in both the former two there have been some moves towards devolution. Although regional and local authorities may be charged with implementing policy and with the provision of services locally, their revenue-raising powers are limited as is their discretion over the way they spend the budget for provision of services received from central government.

While there is a general tendency towards more decentralisation of responsibility to the regional and local level, this in most case is being accompanied by a strengthening of the means to ensure that less prosperous areas are not disadvantaged by having to provide more services. A possible exception to this is Italy, where regional authorities are increasingly being given more autonomy for the expenditure they undertake, without this so far being matched by a comparable increase in the income which the less prosperous regions have for financing spending.

Regional variations in government expenditure

While these differences in systems of governance across the EU affect both the regional deployment of public expenditure and the amount of revenue for funding spending which is raised locally rather than centrally, in practice, actual spending per head shows only limited variation between regions within countries. Equally, as indicated below, there seem to be no substantial differences across countries in the rates of taxation and charges levied on those living and working in different regions.

The fact that policies are decided nationally in relation to perceived needs means that there tends to be a

higher level of government expenditure in the less prosperous regions in relation to their income than in the more prosperous ones, and in the poorer areas within regions than in the richer ones.

Unfortunately, given the data available, the relative scale of public expenditure in different regions cannot be assessed for all Member States. Nor is it possible to make comparisons of this between countries since the information available tends to be partial and specific to a particular country. The main concern here, therefore, is to demonstrate the way that the public expenditure and taxation system contribute differentially to GDP and, therefore, maintain income in the less prosperous regions relative to the more prosperous ones and to give an indication of the scale of contribution involved. This is done by examining the regional incidence of expenditure in selected countries where data exist and by considering the way that revenue is raised across the Union.

UK

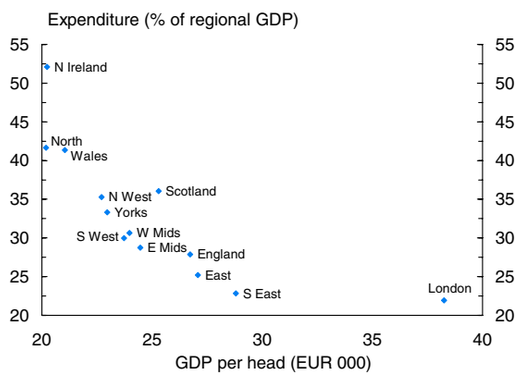
In the UK, as in the rest of the EU, most of the public expenditure which it is possible to distinguish at regional level (some 85% of the total) goes on social protection, health and social services and education. These together accounted, on average, for 75% of government spending in the regions in the 2000–01 financial year (Graph 2.2 and Table A2.4). In terms of expenditure per head across regions, this tended to be higher than elsewhere in the less prosperous regions, such as Northern Ireland, Scotland, Wales and the North and North-West of England, partly because of higher spending on social protection, reflecting the larger numbers of unemployed and those not in work, though also because of the additional expenditure on health care and administration in the first three regions. Expenditure per head was also above the national average in London, again reflecting in part higher spending on administration because of the large number of government offices located there, though over the years efforts have been made to decentralise these.

Although there is some variation between regions in spending per head on education and health care, this is comparatively limited across the English regions at least, as is the variation in environmental and transport expenditure.

The implication of the expenditure per head figures is that spending relative to GDP varies markedly across UK regions. Even leaving aside Northern Ireland, which is a special case because of recent history and ongoing political problems, expenditure in 2000–01 ranged from just over 41% of GDP in Wales and the North of England to 21–22% in London and the South-East. Accordingly, on this measure public expenditure contributes almost twice as much to income in the former two regions, which are the least prosperous in the UK, than the latter two, primarily because of their much lower level of GDP per head and, to a lesser extent, their greater need for social spending.

At the same time, much of this additional expenditure, it should be noted, consists of current rather than capital spending — ie it goes to consumption rather than to investment — and as such is likely to have a only a limited effect in strengthening underlying competitiveness. For example, an average of only 1% of GDP was spent on roads and transport and in no region was the figure above 1½% of GDP. On the other hand, it is also the case that some expenditure classified as current, such as that on education and training, R&D or support for business development, is more similar to

2.2 Government expenditure by region in the UK, average 2000-2001



Source: see Table A2.4

investment and can potentially make an important contribution to increasing productive potential in the region concerned. Nevertheless, even allowing for this, most regional expenditure can be regarded as having social rather than economic objectives.

Italy

A similar picture emerges in Italy, though the variation in the relative scale of public expenditure across regions is slightly less systematic than in the UK and differences in the effective contribution of spending to GDP smaller, despite the wider regional variation in GDP per head. It should be noted, however, that the public expenditure data are more complete than in the UK, where 15% of total spending is not allocated between regions, which could affect the comparison if the outlays concerned were concentrated in London and other more prosperous regions. Nevertheless, the factors at work are much the same in the two countries.

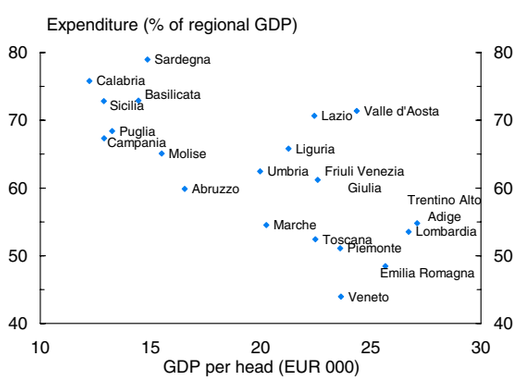
While social protection expenditure per head varies between Italian regions, it is less affected by differences in unemployment rates than in the proportion of the population above retirement age, since the unemployed receive a comparatively low level of benefit and pensions are relatively high. Moreover, the relative number above retirement age is markedly larger in the more prosperous northern regions of Italy than the less prosperous southern ones, unlike in the UK where regional differences in numbers are relatively small. In addition, pensions tend to be more related to previous income in Italy than the UK, where the basic state pension is a fixed amount. Expenditure per head on social protection in 2000, therefore, was almost 85% higher in Liguria, where some 25% of the population is 65 or over, than in Campania, where the figure is only 14% (Graph 2.3 and Table A2.5). While spending per head on social protection in most northern regions was above the national average, in all southern regions it was significantly below, (although higher than average in the latter group as a percentage of GDP, as noted below).

In the case of education and health care, differences in expenditure per head were less marked, though it remains true that in education, in all southern regions except Sardegna, spending per head was below the national average and in health care, it was below the average in all of them. These differences, however, may reflect lower wage and other costs in the south than in the north rather than any difference in the standard of service provided.

Spending per head on transport, the environment and other programmes also tended to be less in southern regions than in northern ones. Nevertheless, the difference in these areas of expenditure as in social protection, health and education was generally smaller than that in GDP per head, so that overall government spending was in most cases — but not all as noted below — higher in relation to GDP per head in the less prosperous parts of Italy than in the more prosperous ones. Expenditure relative to GDP, therefore, ranged from 35% above the national average in Sardegna and 30% above in Calabria, the region with the lowest GDP per head, to 25% below average in Veneto, a slightly narrower difference between extremes than in the UK[2].

At the same time, while all southern regions have above average public expenditure relative to GDP, not all northern regions have a level which is below average, despite the above average GDP per head which all of them enjoy. Indeed, in Valle d'Aosta and Lazio,

2.3 Public expenditure* by region in Italy, 2000



** includes public corporations as well as General Government*
Source: see Table A2.5

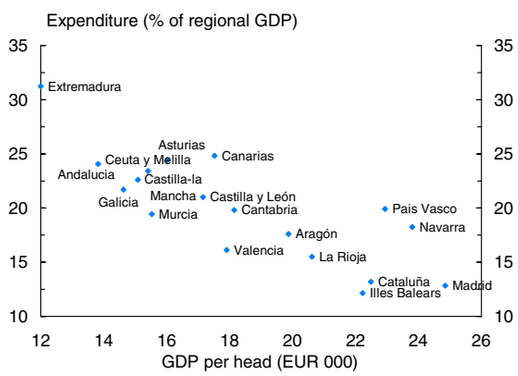
spending in relation to GDP was over 20% above average in 2000 and higher than in Puglia or Campania. Expenditure was also comparatively high in relation to GDP in Liguria, largely because of its relatively high level of spending on social protection (due to its large number of people in retirement), which amounted to over 23% of regional GDP in 2000, more than in all southern regions except Calabria.

In Italy as in the UK, therefore, government expenditure generally has the effect of narrowing disparities in GDP per head, even if the effect seems to be smaller (though the qualification noted above should be borne in mind). As also in the UK, however, it goes much more to supporting consumption than investment, spending on roads and transport, for example, amounting to only just over 2% of GDP on average and under 5% of GDP in all regions, more than in the UK, but still relatively small.

Spain

In Spain, the same factors are evident in determining the regional incidence of expenditure as in the UK and Italy, even though data are available for a more restricted range of spending than in these two countries. In this case, as in Italy, there is no close (inverse) association between spending per head on communal services and the level of regional prosperity, or lack of it, though the intervention from the Structural Funds, which is significant and relatively concentrated in the poorer Objective 1 regions, serves to make the association closer. Nevertheless, public expenditure tends to contribute markedly more to GDP in the less prosperous regions than the more prosperous ones and so has the effect of strengthening social cohesion.

2.4 Government expenditure by region in Spain, average 1992-1999



Source: see Table A2.6

Expenditure on health and social services was, therefore, higher relative to GDP in most Objective 1 regions in Spain over the period 1992 to 1999 than in others (Graph 2.4 and Table A2.6), in part reflecting the larger numbers of unemployed.[3] Nevertheless, there were some exceptions. In particular, spending on health and social services was below the national average in Valencia, an Objective 1 region, and above average in Navarra, which has the second highest level of GDP per head of all Spanish regions.

Expenditure on infrastructure also tended to be relatively high in Objective 1 regions, though again a few non-Objective 1 regions also had above average levels. In Spain, as in the UK and Italy, however, the amount spent on infrastructure investment was uniformly low in relation to GDP, the figure exceeding 3% of GDP only in Extramadura and Ceuta y Melilla, and then only slightly.

Overall, taking account of expenditure financed by the EU, average spending over the period ranged from 31% of GDP in Extremadura (the region with the lowest GDP per head in Spain) and 25% in the Canarias to 13% in Madrid and Cataluña and just 12% in the Illes Balears.

Taxation policy and regional GDP

Although data on government expenditure in Member States are incomplete, those available indicate clearly that public expenditure makes a differential contribution to GDP across regions which helps to reduce disparities and maintain social cohesion.

The key question is how far the higher expenditure relative to GDP in the less prosperous regions is

accompanied by higher taxes and other charges to fund this higher level — or how far, in other words, the effect of the higher spending is offset by higher charges levied on income in the regions concerned.

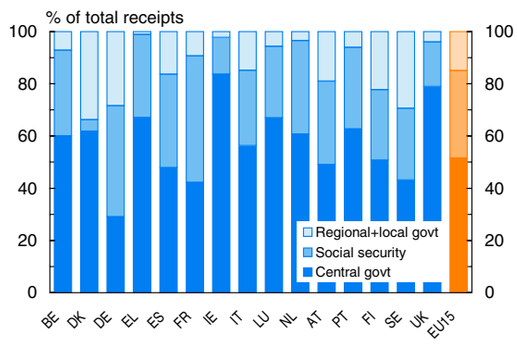
Although this question is difficult to answer given the data available, an insight can be gained into the regional incidence of the funding system in operation from data on the division of taxes between central and regional or local government. In principle, therefore, the more that regions are responsible for covering the cost of the spending carried out at regional or local level by levying taxes or charges on the people living there and the businesses located there, the more are any beneficial effects from higher expenditure relative to GDP likely to be offset[4]. These higher taxes may, of course, themselves be offset by policy decisions to increase transfers from central government, or to set up an equalisation fund to reduce the extent of differences between regions in the income available to finance expenditure.

Where rates of taxation, or of social contributions, are set centrally, the problem does not arise in the sense that those living in less prosperous regions — or indeed in poorer areas within more prosperous regions — will tend automatically to pay a smaller amount in tax than those living elsewhere because their income in aggregate is lower. If there are common rates of tax and contributions applying to income and expenditure, and tax revenue, therefore, is the same in relation to GDP in the region as elsewhere, the tax system will have a neutral effect on the income available to fund expenditure and will, accordingly, not serve to offset the contribution of spending to GDP. If tax rates are progressive rather than proportional, in the sense that they increase as income rises, then the tax system will reinforce the differential effect of expenditure on regional levels of GDP.

How far the tax system in different Member States is progressive as opposed to proportional is difficult to determine, depending as it does on the interaction of income taxes, which are typically progressive, expenditure taxes, which are typically proportional, even though they might vary with the composition of spending, and social contributions, which are also typically proportional at least up to a certain level of earnings[5]. The evidence suggests that tax systems in most countries in the EU are mildly progressive and in others are broadly proportional, or at most only slightly regressive[6]. As such, they may add in some cases to the differential effect across regions resulting from policy on public expenditure and in others are unlikely to offset it much if at all.

In practice, in most EU Member States, taxes are predominantly levied centrally and revenue from regional and local taxes represents only a small proportion of the total finance raised to fund public expenditure. In the EU as whole, only 15% of finance came from regional and local sources in 2001, with only the federal states of Germany and Austria, the three Nordic countries, where local authorities have significant responsibility for expenditure, and Spain, where the regions are important, having proportions larger than this (Graph 2.5 and Table A2.7). Moreover, except in a few countries, the share of revenue raised from regional and local sources has remained much the same over recent years and the main change in the composition of government receipts has been a shift from social contributions to taxes in order, in part, to reduce the tax burden on employment.

2.5 Receipts from taxes and social contributions by level of government, 2001



Source: Eurostat, Government sector accounts

The only countries in which there has been a significant increase in the importance of regional and local taxes are Denmark, Spain and Italy, in the last of which their share of revenue almost doubled between 1995 and 2001. This reflects a policy in Italy of devolving more responsibility for raising the revenue for funding government expenditure to the regions, a policy which has continued since then, so leading to an increasing proportion of tax being levied regionally rather than centrally and giving rise to a growing possibility of effective tax rates being higher in less prosperous regions where taxable capacity is less.

In Italy, as in other countries in which a significant level of responsibility for generating tax revenue is devolved to the regional and local level, there is a need for an explicit mechanism of transfers from more to less prosperous areas if the latter are not to be disadvantaged by having either to impose higher taxes or accepting lower levels of public expenditure and the lower standards of service which this is likely to imply.

In most Member States countries, however, the relatively small proportion of revenue raised at the regional and local level, coupled with the characteristics of the tax system, implies that differences between regions in the contribution of public expenditure to GDP are not counteracted by the way spending is funded.

Discretionary mechanisms for transferring income to regions

The above conclusion tends to be confirmed by an examination of the means in place for the overall management by central government of the expenditure carried out at regional and local level and for determining the revenue available to fund this. In all Member States, conscious efforts are made to increase the revenue available in areas where the local tax base is considered insufficient to meet spending needs or where the costs of services which need to be provided are greater than normal because, for example, of the nature of the terrain or for other reasons. In addition, specific support for economic development may be given to certain regions.

The scale of government transfers to different regions or local areas is determined in slightly different ways in different countries, though common principles are evident in the form, in particular, of assessment of needs and of local taxable capacity. In addition, in all countries, regional and local authorities, irrespective of the extent of funding provided from central government and irrespective of how closely needs are assessed, have some discretion of how they actually spend the transfers they receive.

In Germany, the process of equalisation is designed to adjust the revenue available to the Länder though there is also some allowance for special needs, such as for the city states. Because, however, the Länder have considerable autonomy, they do not necessarily spend the same amounts on different public services as assumed in the calculation of equalised per capita expenditure. Much the same is true in Austria.

In the three Nordic countries, as well as a number of other Member States, the system has a similar aim to that in Germany, but operates between much smaller authorities — municipalities or counties rather than Länder.

In Sweden, the main local source of revenue for local government is local income tax and the transfer system is aimed at boosting the revenue of those municipalities where income, and taxable capacity, is relatively low by transfers from wealthier areas. In addition, there has also been a policy of relocating certain national government offices to the less prosperous municipalities in order to assist their development — and add to their tax base — further.

Similar equalisation arrangements operate in Denmark, though between even smaller local authorities. Here, there are 14 counties, two special status regions (Copenhagen and Frederiksberg) and 271 municipalities, which all have their own income and property taxes and, consequently, a relatively large amount of autonomy[7].

In Finland, municipalities have a sizeable tax base but do not have the power to determine tax rates. Accordingly, wealthier regions generate more revenue than they are considered to need for spending, which is then effectively transferred to less wealthy regions with smaller tax proceeds.

The criteria for assessing regional and local needs for expenditure

In all Member States, the need for spending at the regional and local level is assessed centrally as a means of determining the amounts of transfer which the authorities concerned should receive. The methods used are very similar, in most cases involving the estimation of a standardised level of service per head of population, though there are differences in the way — and in the level of sophistication — that these estimates are made.

In the Netherlands, for example, central government transfers to provinces and municipalities account for most of their income and are determined by a wide range of indicators (such as size, population density, soil quality, social structure and degree of urbanisation as well as their local taxable capacity). The sole aim of the system, however, is to equalise the income they have to spend, given their needs.

In Portugal, a general fund allocates resources to the three NUTS level 1 regions, largely on a per capita basis, but with additional criteria that benefit the two island regions (see below). This general fund also uses a range of criteria to determine allocations to municipalities within each region. A second fund, with explicit cohesion aims, is limited to less developed municipalities, while two additional funds are intended to ensure that the municipalities have adequate resources. Broadly, transfers are inversely correlated with income per head, with Lisboa e Vale do Tejo, the wealthiest region, receiving less than a third per head of population of the amount going to Alentejo, the least wealthy. (In relation to GDP, transfers to the former amount to barely 1%, to the latter 6%.)

In many Member States, such as with the city Länder in Germany, particular regions or local areas receive preferential treatment when transfers are allocated. For historical or cultural reasons, Italy, Spain and the UK accord special status to certain regions, giving rise to greater devolution of powers and, in most cases, different funding formulae (to Northern Ireland, Scotland and Wales in the case of the UK). This also is true to a lesser extent in Finland, where the Åland region has special status and treatment in relation to the rest of the country, in Portugal, in the case of the Açores and Madeira, and in France, in the case of Corse and the 'DOM/TOM'. Some of these special status regions receive larger transfers from central government than other areas, even though they are comparatively wealthy — Trentino Alto Adige in Italy as well as Åland in Finland is an example. While such payments might not seem justified in terms of economic or social cohesion, they may be important in preserving political cohesion.

The budgets of the French regional authorities are financed mainly through transfers from the State. In the French overseas territories, public spending per head is around three times the average for metropolitan France and in Corse, 3.5 times the average. Transfers to most other regions vary relatively little. Although the less wealthy tend on average to receive relatively more in relation to population, there are several anomalies and the correlation between income per head and public spending is weak. In particular, Ile de France receives a premium over the national average — arguably because of higher service delivery costs — while in Lorraine, spending per head is well below average.

Aligning transfers with Community support

In countries which receive substantial amounts from the Structural Funds, some national policies are closely tied to EU funding. In Spain, therefore, the inter-territorial compensation fund allocates complementary funding only to Objective 1 regions (although there is also a special 'Teruel' fund which provides support to that part of the Aragón autonomous region,

Equalisation in Germany

In Germany, the principal channels through which money is transferred both between the Länder themselves and between Federal Government and the Länder is the Financial equalisation system, the *Länderfinanzausgleich*. In its current form, which dates from 1995 when the separate systems in east and west Germany were merged under the *Solidarpakt*, it comprises a mix of pure horizontal equalisation and federal topping-up.

The computation of the respective positions of each Land takes account of taxable capacity based on the taxes which are either exclusive to the Land or shared with Federal Government. The primary allocation consists of shared taxes on income, profits and turnover. Some 75% of the revenue raised from these is distributed between Länder according to population, with the balances reserved for 'financially weak' Länder. This ensures that the revenue of each Land is increased to at least 92% of the average.

There is then a secondary stage of financial equalisation to correct the primary tax distribution to ensure equal per capita tax distribution between the Länder. Because city Länder (Berlin, Bremen and Hamburg) are considered to have special needs, however, they effectively receive 35% more per head of population. A further stage then consists of transfers from the Federal Government designed to raise the revenue available in Länder which have below average income or face special circumstances. These transfers are of three kinds:

- gap-filling grants' (*Fehlbedarfsbundesergänzungszuweisungen*), which lift revenue in the less wealthy Länder to at least 99.5% of the average;
- compensation for special burdens (*Sonderbedarfsbundesergänzungszuweisungen*), covering the cost of political management in small Länder and the cost of unification in the new Länder (*teilungsbedingte Sonderkosten*), as well as giving Bremen and Hamburg additional revenue because of their debt problems;
- transitional grants (*Übergangsbundesergänzungszuweisungen*), paid to the less wealthy west German Länder since 1995, though designed to fade out over time at a rate of 10% a year.

The transfers are substantial. In 2000, Berlin received a total transfer equivalent to 6.4% of its GDP, while net transfers to the eastern Länder average around 5% of GDP. However, because it benefits greatly from a special supplementary programme for regeneration, transfers to Bremen amount to 6.5% of GDP. For Hessen — the Land which pays proportionally most in *Finanzausgleich* — the effect is to reduce fiscal capacity from 126% of the national average to 106%, a reduction equivalent to 1.5% of its GDP.

These net transfers, however, cannot be compared directly with the figures presented above on public expenditure in UK, Italian and Spanish regions because they leave out of account a large element of spending undertaken directly by the Federal Government or under the social insurance scheme for social protection. These, as demonstrated in the case of the countries examined, are likely to add significantly to the differential contribution of public spending to regional GDP.

even though Aragón as a whole is not designated under Community regulations).

In Greece, the main national instrument for promoting economic and social cohesion is the Public Investment Programme (PIP) which finances large infrastructure projects in transport, education, health, culture and other key sectors of the economy at national and regional level. Most of the funds allocated by the PIP go through Community Support Framework (CSF) III. Those regions which receive the highest Community transfers per head under the current CSF (Dytiki Makedonia and Voreio Aigaio), receive 5–6 times more than the Attica region. In Ireland too, proportionally more from the national budget is allocated to the Border, Midlands and West region than to the Southern and Eastern region to make up the matching funding for Structural Fund programmes.

Regional development policy in Member States

Policies to promote economic development are pursued by all levels of government in Member States, using a variety of means and with diverse targets. They include, among others, assistance for technology and innovation, help for restructuring industries facing difficulties or long-term contraction, support for SMEs and incentives to inward investment. Some of these are explicitly classified as state aid and, therefore, subject to legal restrictions imposed by the EU to avoid unfair competition. These are considered elsewhere in this report (Part III).

Other measures, so long as they do not provide direct financial support to particular companies, are not controlled in this way. Subsidies paid to individuals or to public bodies, general subsidies and assistance provided by one private body to another are all excluded from this definition. Some forms of assistance to private entities are, in addition, allowed under the Treaty, notably for services of general interest and to stimulate development of eligible regions.

The approach to territorial development differs between Member States, in part reflecting institutional factors, notably the degree to which responsibility for economic development policies is decentralised, as well as changing views about the factors determining economic development.

Although devolution has been a common theme throughout the EU, there are major differences between countries in the autonomy conferred on lower tiers of government. In Austria, Denmark and Belgium, while central government exercises some oversight, sub-national governments are responsible for the planning and financing of regional policies. In this way, spending is mainly tied to the overall financing ability of each provincial government, so that reducing disparities between regions (provinces, counties or municipalities) is not necessarily a central aim.

By contrast, in the UK and France, the allocation of resources is largely determined centrally, although implementation of policy is increasingly the responsibility of regional bodies: regional development agencies in England and devolved authorities in Scotland, Wales and Northern Ireland; and regions in France.

There is not always a good correspondence between national and EU designations of 'territories' for regional and other forms of economic development assistance. In France regions favoured by domestic policy are largely different from those that benefit from Community policy whereas in Germany the correspondence is close. In Spain, as in the other Cohesion countries, the framework of the Structural Funds is largely adopted for national policy. But in the UK and the Netherlands, urban areas — especially — are designated on different criteria from Community policy.

In the Netherlands, moreover, regional development issues are addressed on the basis of the perceived needs of the country as a whole. Expenditure on regional policy as such is, therefore, modest, with the main emphasis on small areas with specific economic problems (mainly urban areas with high unemployment).

Support for innovation and new technologies has emerged in several areas as a primary instrument in recent years. The Flemish region in Belgium has been especially prominent in this regard, as have the Austrian Länder, with an increasing focus on innovation as a means of stimulating endogenous regional development and with federal support for R&D. Often such strategies are directed primarily at SMEs and encompass horizontal policies such as encouragement of cooperation between research institutes and the corporate sector, rather than explicit subsidies.

A focus on employment creation and the attraction of big investment projects has been characteristic of a number of areas in which unemployment is high. Wallonie is an example and Ireland has long had

a strong focus on using FDI to foster economic development.

'Clustering' is a feature of policy in many countries. In Steiermark, in Austria, the provincial government overhauled its development strategy in 1996 and created a cluster network linking various parts of the automotive industry, which proved effective. Upper Austria followed the example with a comprehensive provincial strategy and incremental increases in technology and networking subsidies.

In Sweden, government policy has shifted in recent years to supporting the development of growth poles and clusters in different regions whereas previously it was centred on maintaining a high level of public sector activity in the northern, sparsely populated regions in order to combat outward migration.

In Italy, significant reforms have recently been made to territorial policies. These are administered and funded by the central government and now focus largely on capacity building through public investment instead of incentives to businesses, as in the past. Although regional incentives to companies still go disproportionately to the south, public investment programmes often favour regions in the north, giving rise to a possible conflict between national policy and EU cohesion policy.

Foreign direct investment

Policies to attract foreign direct investment (FDI) are typically an important part of regional development strategy. Indeed, a significant aim of regional support is precisely to increase the attractiveness of problem regions for foreign investors. FDI not only brings income and jobs to regions but, in many cases, it is also a mechanism for transferring technology and know-how. Through spill-over effects, this can potentially have a significant impact on the productivity and competitiveness of resident enterprises in the region concerned. A substantial part of FDI, therefore, takes the form of multinationals investing in the region, either through acquiring an existing business and its production facilities — and, indeed, its customer base — or through setting up new facilities. Either way, multinationals, particularly when investing in less developed regions, tend to bring with them up-to-date techniques of production and working methods.

Although the benefits associated with FDI tend to be greatest in the less favoured regions, the comparative advantages to multinationals of investing in such regions are not always sufficient to attract them to locate there. Much depends in this regard on the primary reason for the investment so far as the multinational is concerned, whether to supply the local or regional market however extensively defined (whether confined to a small area, at one extreme, or the whole of the EU, at the other) or whether to take advantage of specific factors of production which are on offer — such as low labour costs, particular skills or certain natural resources.

If the reason has to do with supplying a relatively large market in geographical terms, then a multinational might be open to persuasion where in a particular country or broad geographical region it decides to locate. A national government might then have little difficulty in persuading a multinational to locate in a less favoured area. If the reason, however, has to do with the specific attraction of a particular place, then it can often be difficult for a national government to persuade the multinational concerned to locate elsewhere if the place in question is not in line with overall regional development policy. In this case, the risk might be to discourage the multinational from investing in the country concerned at all. This tends to be a particular dilemma for governments in the Cohesion countries or, still more, in the accession countries, where there is a potential trade-off between wanting investment to go towards the less developed regions to provide a stimulus and help them catch up, and the fact that investment tends naturally to be attracted to the regions which are most dynamic.

Although data on the regional location of inward investment into the EU are incomplete, they suggest that FDI inflows have tended to go disproportionately

to the economically stronger regions both within countries and across the EU as a whole. Ireland is somewhat of an exception in that it attracted large-scale inflows throughout the 1990s despite, initially at least, its relatively low GDP per head, although inflows went disproportionately to the eastern part of the country, to Dublin and the surrounding area. Ireland has continued to be a major destination for investment as its GDP has risen.

Over the three years 1999 to 2001, FDI in the 15 EU Member States amounted to around 7% of GDP, on average, if inflows from other parts of the Union are included (and under 2% of GDP if they are not). In Ireland, however, inward investment averaged over 20% of GDP over these three years (Graph 2.6). The next highest levels of FDI, at over 13% of GDP, were in Denmark, the Netherlands and Sweden, in the first two of which GDP per head was the third and fourth highest in the EU, behind Ireland and Luxembourg, which with Belgium, also had a level of FDI well above the EU average relative to GDP.

In the Cohesion countries, other than Ireland, FDI was much lower, averaging just over 4% of GDP in Portugal over this period and only 1½% of GDP in Spain and just 1% of GDP in Greece, the lowest level in the EU together with Italy.

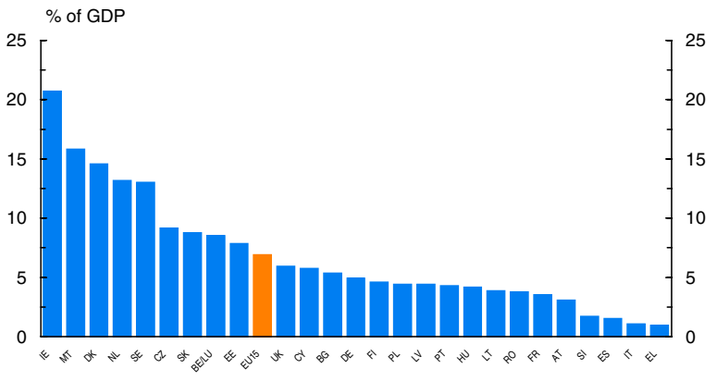
Within all these countries, as elsewhere in the Union, the evidence available suggests that inward investment went disproportionately to the more prosperous regions and relatively little went to lagging areas. Although the regional data are not ideal because inflows are often classified to the region where a company's headquarters is located rather than to where the investment actually goes, the evidence is, nevertheless, striking. In Germany, investment was concentrated in a limited number of Länder, with Nordrhein-Westphalia, Hesse and Baden-Wurttemberg accounting for 71% of all inward FDI inflows in the years 1998 to 2000 and Bayern and Hamburg for another 17% (Table A2.8). By contrast, the 5 Objective 1 regions in the east of the country accounted for only just over 2% of total inflows between them.

In Spain, around 70% of FDI inflows in the years 1999 to 2001 went to Madrid and a further 14% to Cataluña, while Objective 1 regions accounted for well under 10% between them (and for very little at all outside Valencia and the Canaries). Similarly, in Italy, where the data relate to employment in foreign-owned enterprises rather than FDI inflows, multinationals are concentrated in the north of the country and under 4% of employment in foreign-owned companies was in the southern Objective 1 regions in 2000.

FDI in the accession countries

Much the same tendency is evident in the accession countries as in the EU, at least for regions within these countries, though the distribution of investment across countries varies less closely with GDP per head than in the EU, despite appearances to the contrary. According to the latest data, almost 70% of FDI inflows to these countries goes to just three of them — Poland, which alone accounts for 35% of the total, the Czech

2.6 FDI inflows into Member States and accession countries, average 1999-2001



BE/LU: data are for 1998; DK: data are for 1999-2000; ES: data are for 1998-1999; HU and SK: data are for 2000-2001; RO: data are for 1997-1999
Source: Eurostat, Balance of payments statistics

Republic and Hungary (Table A2.9). (The figure of 70% includes an estimate for Romania, for which no data are available for the years since 1999.)

Nevertheless, if related to GDP, this apparent concentration is no longer so evident. In Poland, therefore, FDI amounted to an average of 4½% of GDP over the three years 1999 to 2001 and in Hungary, to just over 4%, less than in most other countries. Although in the Czech Republic, FDI was higher than anywhere else relative to GDP (over 9%) other than in Malta (16%), it was also relatively high in Estonia and Bulgaria, countries with relatively low levels of GDP per head even within the region. At the same time, it was relatively low in Slovenia, in which GDP per head is relatively high.

Within all the countries, however, the data available indicate a relatively high degree of concentration of FDI in and around capital cities, as in the Cohesion countries. In Hungary, therefore, over two-thirds of inward investment in 2001 went to the region in which Budapest is located; in the Czech Republic, 60% went to Prague and the surrounding region (Střední Čechy) in the same year and in Slovakia, some 63% went to Bratislava (Table A2.10). In Poland, on the other hand, where there are a number of large cities apart from Warsaw, FDI inflows are less concentrated. Nevertheless, the capital city region (Mazowieckie) accounted for around a quarter of total inflows in 1998 and two other regions (Łódzkie and Wielkopolskie), both of which contain large cities (Lodz and Poznan), for another quarter.

1 It should be noted, however, that in the southern countries, the provision of a minimum level of income tends to be a regional responsibility and access to this varies from one region to another.

2 Moreover, the Italian figures relate to smaller NUTS 2 regions instead of larger NUTS 1 regions as in the UK, which would tend in itself to widen rather than narrow the difference.

3 Unlike in Italy, there is no systematic tendency for the relative number of people above retirement age to be greater in more prosperous regions than less prosperous ones, or indeed vice versa.

4 This, of course, ignores the benefits which might stem from levying taxes locally to fund local expenditure in terms of encouraging greater fiscal responsibility and more efficient deployment of spending.

5 In practice, social contributions in countries in which a ceiling on the maximum amount payable is fixed are regressive above the level of earnings involved and this tends to offset the progressive schedule of income tax rates.

6 At the same time, it should be noted that the widespread tendency to shift away from taxes on income to taxes on expenditure generally has the effect of reducing the progressive nature of the tax system as a whole.

7 The system in Denmark is set to alter in the near future with possibly large changes in both the structure of the public sector and the division of responsibilities between different levels of government.

Statistical annex to Part 2

A2.1 Public expenditure by economic category, 1995 and 2002

% of GDP

	Goods and services		of which: empl. comp.		Social benefits		Debt interest		Other transfers + subsidies		GDFC*		Total expenditure		Total revenue		Budget balance	
	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995	2002	1995**	2002
EU15	20.7	20.6	11.1	10.4	17.2	16.4	5.4	3.4	6.7	4.2	2.6	2.2	51.3	47.4	46.1	45.5	-5.2	-1.9
BE	21.4	22.3	11.9	12.0	16.6	16.1	9.3	6.1	4.6	4.7	1.8	1.6	52.8	50.3	48.5	50.4	-4.3	0.1
DK	25.8	26.3	17.3	17.6	20.4	17.5	6.4	3.7	5.2	5.2	1.8	1.8	60.3	55.5	58.0	57.4	-2.3	1.9
DE	19.8	19.2	9.0	7.9	18.1	19.4	3.7	3.1	11.5	4.8	2.3	1.6	49.6	46.3	46.1	45.0	-3.5	-1.3
EL	15.3	15.8	11.3	11.9	15.1	16.4	11.7	5.5	3.4	3.4	3.2	3.8	49.4	46.9	39.3	45.6	-10.1	-1.3
ES	18.1	17.6	11.3	10.3	13.9	12.5	5.2	2.8	4.4	3.9	3.7	3.4	45.0	39.8	38.4	39.9	-6.6	0.1
FR	23.9	23.9	13.7	13.7	18.5	18.1	3.6	3.1	4.4	4.0	3.3	3.1	55.1	53.5	49.6	50.3	-5.5	-3.2
IE	16.4	15.1	10.2	8.3	11.8	8.3	5.4	1.4	4.7	3.9	2.3	4.4	41.5	33.3	39.4	33.1	-2.1	-0.2
IT	17.9	18.8	11.2	10.7	16.7	17.1	11.5	5.8	4.9	3.8	2.1	1.8	53.4	47.7	45.8	45.2	-7.6	-2.5
LU	18.4	18.1	9.7	8.6	16.5	15.7	0.4	0.3	6.4	6.2	4.6	4.7	45.5	44.4	47.6	46.8	2.1	2.4
NL	24.0	24.5	10.8	10.5	15.3	11.8	5.9	3.1	8.1	3.8	3.0	3.3	51.4	47.5	47.3	45.9	-4.1	-1.6
AT	20.4	18.6	12.6	9.7	19.5	18.6	4.4	3.6	7.6	8.3	3.1	1.3	57.3	51.7	52.0	51.3	-5.3	-0.4
PT	18.6	21.1	13.6	15.4	11.8	13.0	6.3	3.0	4.4	5.4	3.7	3.4	45.0	46.1	39.6	43.3	-5.4	-2.8
FI	22.8	21.7	15.2	13.5	22.1	16.8	4.0	2.2	5.2	4.0	2.8	2.9	59.6	50.0	55.7	54.2	-3.9	4.2
SE	27.3	28.0	16.7	16.3	20.6	17.6	6.6	3.2	6.4	3.9	4.0	3.2	67.7	58.5	60.3	59.5	-7.4	1.0
UK	19.6	20.0	8.3	7.6	15.4	13.5	3.7	2.1	3.8	3.8	2.0	1.3	44.6	40.7	38.9	39.4	-5.7	-1.3

** GDFC = gross domestic fixed capital formation*
*** DE: not including unification-related debt and asset assumptions by the Federal Government (Threuhand, eastern housing companies and Deutsche Kreditbank) equal to EUR 116.3 billion;*
NL: not including a net amount of EUR 14.9 billion of exceptional expenditure related to the reform of the financing of social housing societies
Source: Eurostat, Government sector accounts

A2.2 Public expenditure on old-age pensions and unemployment benefits, 1995 and 2000

% of total expenditure on social benefits

	Old age pensions*			Unemployment benefits		
	1995	2000	% point change	1995	2000	% point change
EU15	44.8	46.4	1.6	8.4	6.3	-2.1
BE	43.1	43.8	0.7	13.0	11.9	-1.1
DK	37.7	38.1	0.4	14.8	10.5	-4.2
DE	42.7	42.2	-0.4	9.0	8.4	-0.6
EL	52.1	49.4	-2.7	4.5	6.2	1.6
ES	43.9	46.3	2.4	16.5	12.2	-4.3
FR	43.5	44.1	0.5	7.9	6.9	-1.0
IE	26.5	25.4	-1.1	15.3	9.7	-5.7
IT	63.4	63.4	0.0	3.0	1.7	-1.4
LU	45.1	40.0	-5.1	3.1	3.3	0.2
NL	38.0	42.4	4.4	9.9	5.1	-4.8
AT	48.4	48.3	-0.1	5.6	4.7	-0.9
PT	41.7	45.6	3.9	5.4	3.8	-1.6
FI	32.8	35.8	3.0	14.4	10.4	-3.9
SE	37.5	39.1	1.6	10.9	6.5	-4.4
UK	43.1	47.7	4.5	5.6	3.2	-2.4

** Old-age pensions include survivors' benefits*
Note: Except for DK, IE, LU, AT, all 2000 data are provisional or estimated
Source: Eurostat, ESSPROS

A2.3 Public expenditure by function, 1995 and 2001

% of GDP

	Total		General services		Environment		Health		Education		Social protection		Other	
	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001	1995	2001
EU15	52.9	46.9	8.2	6.8	0.8	0.7	6.2	6.3	5.2	5.0	20.0	18.8	12.5	9.3
BE	52.8	49.5	12.1	10.2	0.7	0.8	6.2	6.6	6.4	6.2	18.6	17.2	8.8	8.5
DK	60.3	55.3	10.8	8.6	0.0	:	5.1	5.4	7.7	8.3	26.8	24.0	9.6	9.0
DE	56.1	48.3	6.7	6.3	1.0	0.6	6.4	6.4	4.5	4.2	21.3	21.8	16.2	9.0
EL	51.0	47.8	16.8	10.9	0.5	0.6	3.4	3.7	3.3	3.1	18.3	19.4	8.7	10.1
ES	:	39.4	:	5.5	:	0.9	:	5.3	:	4.3	:	13.4	:	10.0
FR	55.1	52.5	6.3	6.4	1.1	1.3	7.9	7.9	6.3	6.0	21.5	20.4	12.0	10.5
IE	41.5	33.9	7.3	3.8	0.0	:	6.2	6.3	5.1	4.3	13.6	9.5	9.1	10.1
IT	53.4	48.5	14.1	9.6	0.7	0.9	5.5	6.4	4.9	5.0	18.7	17.8	9.5	8.8
LU	45.5	39.1	4.6	4.7	1.5	1.3	5.6	4.9	5.0	4.7	19.2	17.1	9.6	6.4
NL	56.4	46.6	10.0	8.2	0.8	0.7	3.9	4.1	5.1	4.8	20.7	17.5	15.9	11.3
AT	57.3	51.8	9.3	8.5	1.4	0.4	7.6	6.1	6.5	5.7	22.6	21.5	9.9	9.6
PT	45.0	46.2	8.7	6.7	0.4	0.7	5.3	6.8	6.5	7.0	12.5	13.6	11.6	11.4
FI	59.6	49.1	7.0	6.4	0.3	0.3	6.2	6.0	7.3	6.5	26.0	20.6	12.8	9.3
SE	67.7	57.1	11.9	8.8	0.2	0.3	6.4	6.8	7.1	7.3	27.2	23.8	14.9	10.1
UK	43.5	39.2	5.7	4.3	0.3	0.5	5.6	6.1	4.5	4.6	17.3	16.0	10.1	7.7

Note: For 1995, no data are available for ES; EU15 includes an estimate for ES
Source: Eurostat, Government sector accounts

A2.4 Public expenditure by region in the UK, 2000-01*

	North	N West	Yorks	E Midls	W Mids	S West	East	London	S East	England	Scotland	Wales	N Ireland	UK
													Expenditure per head (EUR)	
Social security	3472	3212	2891	2706	2870	2732	2502	2712	2384	2781	3150	3303	3408	2856
Education	1218	1225	1216	1149	1217	1112	1148	1270	1097	1183	1523	1203	1695	1227
Health	1953	1950	1866	1682	1762	1781	1672	2293	1695	1861	2210	2138	2105	1911
Roads+transport	281	210	193	232	208	245	262	314	240	243	304	248	222	248
Environment	324	299	253	232	235	225	196	284	214	249	328	424	272	265
Other	1157	1117	1233	1028	1054	1013	1049	1524	944	1130	1606	1383	2837	1232
Total	8406	8012	7653	7028	7346	7108	6829	8397	6575	7446	9120	8698	10539	7740
													% of regional GDP	
Social security	17.2	14.1	12.6	11.1	12.0	11.5	9.2	7.1	8.3	10.4	12.4	15.7	16.8	10.9
Education	6.0	5.4	5.3	4.7	5.1	4.7	4.2	3.3	3.8	4.4	6.0	5.7	8.4	4.7
Health	9.7	8.6	8.1	6.9	7.4	7.5	6.2	6.0	5.9	7.0	8.7	10.2	10.4	7.3
Roads+transport	1.4	0.9	0.8	0.9	0.9	1.0	1.0	0.8	0.8	0.9	1.2	1.2	1.1	0.9
Environment	1.6	1.3	1.1	0.9	1.0	0.9	0.7	0.7	0.7	0.9	1.3	2.0	1.3	1.0
Other	5.7	4.9	5.4	4.2	4.4	4.3	3.9	4.0	3.3	4.2	6.3	6.6	14.0	4.7
Total	41.6	35.3	33.3	28.7	30.6	30.0	25.2	21.9	22.8	27.9	36.0	41.3	52.1	29.6
GDP per head (EUR 000)	20.2	22.7	23.0	24.5	24.0	23.7	27.1	38.3	28.8	26.7	25.3	21.0	20.2	26.1

** 2000-01 financial year*
Source: DG REGIO calculations based on Public Expenditure Statistical Analysis (PESA) 2002-03 and Eurostat, Regional accounts

A2.5 Public expenditure by region in Italy, 2000

	Piemonte	Valle d'Aosta	Lom-bardia	Trentino Alto Adige	Veneto	Friuli Venezia Giulia	Liguria	Emilia Romagna	Toscana	Umbria	Marche	Lazio	Abruzzo	Molise	Campania	Puglia	Basilicata	Calabria	Sicilia	Sardegna	Italy
																					Expenditure per head (EUR)
Social security	4302	4413	4070	3265	3530	4678	4976	4546	4216	4327	4009	4550	3601	3420	**2713**	**3054**	**3200**	**3100**	**2920**	**3276**	**3769**
Education	743	1103	725	1455	730	1009	933	804	939	920	777	1321	802	784	**805**	**751**	**803**	**766**	**743**	**888**	**848**
Health	1553	2224	1947	2121	1531	1680	1556	1742	1623	1785	1517	1586	1190	1395	**1375**	**1359**	**1426**	**1354**	**1426**	**1548**	**1589**
Roads+transport	558	1056	377	720	399	591	801	414	503	610	423	774	470	631	**414**	**404**	**538**	**560**	**408**	**469**	**489**
Environment	267	631	258	526	207	301	340	229	312	529	294	287	266	376	**254**	**221**	**302**	**244**	**256**	**436**	**275**
Other	4646	7964	6922	6766	3998	5564	5391	4705	4198	4302	4028	7341	3581	3489	**3119**	**3278**	**4271**	**3243**	**3635**	**5125**	**4827**
Total	12070	17391	14299	14854	10395	13823	13997	12440	11791	12473	11049	15858	9910	10096	**8680**	**9067**	**10540**	**9267**	**9389**	**11742**	**11797**
																					% of regional GDP
Social security	18.2	18.1	15.2	12.1	14.9	20.7	23.4	17.7	18.8	21.7	19.8	20.3	21.8	22.0	**21.0**	**23.0**	**22.1**	**25.4**	**22.7**	**22.0**	**18.7**
Education	3.1	4.5	2.7	5.4	3.1	4.5	4.4	3.1	4.2	4.6	3.8	5.9	4.8	5.1	**6.2**	**5.7**	**5.6**	**6.3**	**5.8**	**6.0**	**4.2**
Health	6.6	9.1	7.3	7.8	6.5	7.4	7.3	6.8	7.2	8.9	7.5	7.1	7.2	9.0	**10.7**	**10.3**	**9.9**	**11.1**	**11.1**	**10.4**	**7.9**
Roads+transport	2.4	4.3	1.4	2.7	1.7	2.6	3.8	1.6	2.2	3.1	2.1	3.4	2.8	4.1	**3.2**	**3.0**	**3.7**	**4.6**	**3.2**	**3.2**	**2.4**
Environment	1.1	2.6	1.0	1.9	0.9	1.3	1.6	0.9	1.4	2.6	1.5	1.3	1.6	2.4	**2.0**	**1.7**	**2.1**	**2.0**	**2.0**	**2.9**	**1.4**
Other	19.7	32.7	25.9	25.0	16.9	24.6	25.4	18.3	18.7	21.5	19.9	32.7	21.6	22.5	**24.2**	**24.7**	**29.5**	**26.5**	**28.2**	**34.5**	**23.9**
Total	51.1	71.4	53.5	54.8	44.0	61.2	65.8	48.5	52.4	62.5	54.5	70.7	59.9	65.1	**67.3**	**68.4**	**72.9**	**75.8**	**72.8**	**79.0**	**58.4**
GDP per head (EUR 000)	23.6	24.4	26.7	27.1	23.6	22.6	21.3	25.7	22.5	20.0	20.3	22.4	16.5	15.5	12.9	13.3	14.5	12.2	12.9	14.9	20.2

Note: Public expenditure includes spending by public corporations as well as by General Government; figures in bold relate to Objective 1 regions.
Source: DG REGIO calculations based on MEF-DPS (2002), TPA database and Eurostat, Regional accounts

A2.6 Public expenditure by region in Spain, average 1992-1999

	Galicia	Astu-rias	Canta-bria	Pais Vasco	Navarra	La Rioja	Aragón	Madrid	Castilla y León	Castilla -la Mancha	Extre-madura	Cata-luña	Valen-cia	Illes Balears	Anda-lucía	Murcia	Ceuta y Melilla	Cana-rias	Spain
																			Expenditure per head (EUR)
Health, social services, basic territorial financing	**1637**	**1703**	**1695**	2298	2221	1635	1741	1545	**1755**	**1656**	**1816**	1546	**1458**	1365	**1592**	**1560**	**1499**	**1850**	1648
Infrastructure	**172**	**272**	**323**	183	189	144	267	158	**232**	**287**	**247**	133	**187**	220	**209**	**240**	**358**	**201**	196
Law+order, housing, transport	**187**	**218**	**207**	358	303	332	278	314	**286**	**242**	**235**	250	**193**	249	**204**	**171**	**489**	**244**	246
EU+other regional aid	**95**	**442**	**48**	51	60	36	53	9	**95**	**88**	**204**	24	**46**	16	**164**	**52**	**67**	**611**	105
Total	**2091**	**2635**	**2274**	2890	2773	2147	2339	2026	**2367**	**2273**	**2502**	1953	**1883**	1850	**2169**	**2024**	**2413**	**2907**	2195
																			% of regional GDP
Health, social services, basic territorial financing	**17.0**	**15.8**	**14.8**	15.8	14.6	11.8	13.1	9.8	**15.6**	**16.5**	**22.7**	10.4	**12.5**	9.0	**17.7**	**15.0**	**14.6**	**15.8**	13.6
Infrastructure	**1.8**	**2.5**	**2.8**	1.3	1.2	1.0	2.0	1.0	**2.1**	**2.9**	**3.1**	0.9	**1.6**	1.4	**2.3**	**2.3**	**3.5**	**1.7**	1.6
Law+order, housing, transport	**1.9**	**2.0**	**1.8**	2.5	2.0	2.4	2.1	2.0	**2.5**	**2.4**	**2.9**	1.7	**1.7**	1.6	**2.3**	**1.6**	**4.7**	**2.1**	2.0
EU+other regional aid	**1.0**	**4.1**	**0.4**	0.4	0.4	0.3	0.4	0.1	**0.8**	**0.9**	**2.5**	0.2	**0.4**	0.1	**1.8**	**0.5**	**0.7**	**5.2**	0.9
Total	**21.7**	**24.4**	**19.8**	19.9	18.2	15.5	17.6	12.8	**21.0**	**22.6**	**31.2**	13.2	**16.1**	12.2	**24.1**	**19.4**	**23.4**	**24.8**	18.1
GDP per head (EUR 000)	**14.6**	**16.0**	**18.1**	22.9	23.8	20.6	19.9	24.9	**17.2**	**15.1**	**12.0**	22.5	**17.9**	22.2	**13.8**	**15.5**	**15.4**	**17.5**	18.6

Note: Figures in bold relate to Objective 1 regions
Source: DG REGIO calculations based on Intervención General de la Administración del Estado (IGAE) and Eurostat, Regional accounts

A2.7 Receipts from taxes and social contributions by level of government, 1995 and 2001

% of total receipts

	Central govt		Social security		Regional+local govt	
	1995	2001	1995	2001	1995	2001
EU15	49	52	36	34	15	15
BE	60	60	34	33	7	7
DK	66	62	3	4	31	34
DE	30	29	43	42	27	28
EL	66	67	33	32	1	1
ES	51	48	36	36	13	16
FR	43	42	46	48	10	9
IE	83	84	15	14	3	2
IT	60	56	32	29	8	15
LU	67	67	27	27	6	6
NL	57	61	40	36	3	4
AT	45	49	35	32	20	19
PT	64	63	31	31	5	6
FI	46	51	32	27	22	22
SE	43	43	27	27	30	29
UK	79	79	17	17	4	4

Note: Data for Portugal for 2001 relate to 2000. Central government includes EU taxes.
Source: Eurostat, Government sector accounts

A2.8 Distribution of inward FDI by region in selected EU countries

% of country totals

Germany	1998-2000	Spain	1999-2001	Italy	2000
Nordrhein-Westfalen	37.5	Madrid	69.5	Lombardia	43.5
Hessen	21.6	Cataluña	13.6	Piemonte	14.9
Baden-Württemberg	11.7	País Vasco	5.5	Lazio	8.4
Bayern	9.0	Other regions	3.0	Emilia-Romagna	7.8
Hamburg	7.7	Com. Valenciana	2.7	Veneto	4.7
Niedersachsen	3.3	Canarias	2.7	Toscana	4.3
Berlin	2.8	Andalucía	1.2	Friuli-Venezia-Giulia	4.0
Rheinland-Pfalz	1.9	Galicia	0.5	Abruzzo	3.3
Schleswig-Holstein	1.6	Baleares	0.4	Liguria	1.9
Sachsen-Anhalt	1.0	Aragón	0.3	Trentino Alto Adige	1.5
Bremen	0.5	Navarra	0.3	Umbria	1.2
Brandenburg	0.3	Asturias	0.1	Campania	1.2
Sachsen	0.3	Castilla-La Mancha	0.1	Puglia	0.8
Saarland	0.3	Castilla y León	0.1	Sicilia	0.8
Thüringen	0.3	Murcia	0.1	Marche	0.7
Mecklenburg-Vorpommern	0.2	Extremadura	0.0	Sardegna	0.4
		Rioja	0.0	Valle d'Aosta	0.4
		Cantabria	0.0	Basilicata	0.2
		Ceuta y Melilla	0.0	Molise	0.0
				Calabria	0.0

Notes: Figures for Italy refer to the number of employees in foreign-owned manufacturing subsidiaries; it should be emphasised that employment is attributed to regions according to the location of headquarters and not branches. They are, therefore, only indicative of the actual regional distribution.
Figures relate to average 1998-2000 for Germany and average 1999-2001 for Spain.
Source: DE — Bankgesellschaft Berlin based on Deutsche Bundesbank; ES — Foreign Investment Register; IT — CNEL, FDI database (R&P — Politecnico di Milano)

A2.9 Inward FDI into the EU15 and the accession countries, average 1999-2001

	% of GDP		% of GDP
EU15	6.9	**BG**	5.4
BE/LU	8.5	**CY**	5.8
DK	14.6	**CZ***	9.2
DE	4.9	**EE**	7.8
EL	0.9	**HU**	4.2
ES	1.5	**LT**	3.9
FR	3.5	**LV**	4.4
IE	20.7	**MT**	15.8
IT	1.1	**PL***	4.4
NL	13.2	**RO**	3.8
AT	3.1	**SI**	1.7
PT	4.3	**SK**	8.8
FI	4.6		
SE	13.0		
UK	5.9		

BE/LU: data are for 1998; DK: data are for 1999-2000;
ES: data for 1998-1999; RO: data are for 1997-1999;
HU, SK: data are for 2000-2001
** CZ and PL account for 23% and 35%, respectively, of all FDI in the accession countries.*
Source: Eurostat, Balance of payments statistics; UNCTAD for Greece

A2.10 Distribution of inward FDI by NUTS 2 region in selected new Member States

% of country totals

Czech Republic	2001	Hungary	2001	Poland	1998	Slovakia	2001
Praha	49.3	Közép-Magyarország	67.7	Mazowieckie	24.3	Bratislavský	63.2
Střední Čechy	10.7	Közép-Dunántúl	9.4	Śląskie	13.5	Východné Slovensko	18.8
Jihozápad	7.6	Nyugat-Dunántúl	7.5	Wielkopolskie	11.6	Západné Slovensko	10.3
Severozápad	8.2	Észak-Magyarország	6.2	Dolnośląskie	8.4	Stredné Slovensko	7.7
Severovýchod	6.6	Dél-Alföld	4.0	Pomorskie	7.3		
Jihovýchod	8.4	Észak-Alföld	3.5	Łódzkie	5.9		
Střední Morava	5.2	Dél-Dunántúl	1.8	Małopolskie	5.6		
Moravskoslezko	4.0			Kujawsko-Pomorskie	4.1		
				Zachodniopomorskie	3.9		
				Lubelskie	2.8		
				Podkarpackie	2.5		
				Świętokrzyskie	2.3		
				Warmińsko-Mazurskie	2.3		
				Lubuskie	2.2		
				Opolskie	1.8		
				Podlaskie	1.6		

Source: National statistical sources

Part 3 — Impact of Community policies: competitiveness, employment and cohesion

Table of contents

Introduction

The Second Cohesion Report presented an analysis of the contribution of Community policies to cohesion. The concern here is not to repeat this analysis but to review the main changes which have occurred in these policies since 2001 in the light of EU objectives, particularly those agreed at Lisbon and Gothenburg. Two policy areas not included in the previous report are also covered, namely trade policy and justice and home affairs. A separate section examines policy on State aid which has important links with cohesion policy. The final section presents the results of a survey conducted in 28 regions in the EU on the perception of the effects of different Community policies.

The contribution of Community policies to cohesion in the light of the Lisbon and Gothenburg strategy

Building the knowledge-based economy

Knowledge is at the heart of the Lisbon strategy. The generation, dissemination and use of knowledge is critical to the way in which businesses operate and grow. Facilitating access to finance and markets, promoting business support services, reinforcing links between enterprises and the scientific base, equipping people with the right skills through education and training, encouraging the take up of new technologies and increasing investment in R&D are all key to improving the business environment and stimulating innovation.

Community enterprise, industrial and innovation policy is aimed at strengthening the competitiveness of EU industry and services by encouraging enterprise, establishing an environment conducive to innovation and economic development and ensuring access to markets[1].

Enterprise policy encourages public-private partnership and networking between companies[2] (through, for example, the Innovation Relay Centres and the Innovating Regions in Europe network), so stimulating the exchange of knowledge and experience. Similarly, the information and advice centres, which have been established across the EU over the past decade, with the support, *inter alia*, of the Structural Funds, play an important role, along with other business support services, in building relationships between firms in different regions and in helping them solve practical problems.

Enterprise policy is also aimed at encouraging entrepreneurship and making it easier to start and run businesses, which can be particularly important for disadvantaged groups and in lagging regions[3]. To this end, a new EU definition of micro, small and medium-sized enterprises will apply from the beginning of 2005[4], which by extending coverage to larger firms than at present will effectively reduce the administrative burdens they now have to bear, while at the same time making them eligible for financial support.

As indicated in Part 1, disparities between regions in relation to innovation stem not only from differences in expenditure on R&D, but equally importantly from the weakness of links between businesses, research centres and so on which make up the regional innovation system. Innovation policies are, therefore, moving away from measures to expand R&D and technological capacity directly towards strategies to improve the environment in which firms operate[5]. Three areas deserve particular attention:

- building on the experience of pioneering work financed by the Structural Funds (Regional Innovation Strategies (RIS)), regions are encouraged to develop demand-led, participatory policies for innovation (see below). This is particularly important in the accession countries, where coherent policies at regional level are lacking: RIS-NAC (Regional Innovation Strategies — Newly Associated Countries) was set up, with a budget of EUR 5.25 million, under the Fifth Framework Programme, 16 regions in 9 countries started projects at the beginning of 2002;

- in order to make the most efficient use of existing knowledge and maximise its diffusion, it is necessary to increase the availability of business services and improving their quality. The network of Innovation Relay Centres, in particular, is focused specifically on the needs of less advanced regions helping local businesses access technology and identifying the technologies suitable for transfer to other regions or sectors;

- lack of access to finance is often a key constraint on the growth and development of companies and an important part of enterprise policy is to support the development of alternatives to bank lending, such as venture capital funds, in regions where finance is limited. The means created through the European Investment Fund (EIF) to increase the finance available to SMEs include the SME Guarantee Facility, the ETF Start-up Scheme and the Seed Capital Action. The EIF is also in the process of establishing a contact with at least one financial institution in each accession country for the same purpose.

The main plank of Community policy for the information society is the eEurope Initiative launched in June 2000 with a second phase, the eEurope 2005 Action Plan, begun two years later, the main objective being to ensure 'modern online public services (e-government, e-learning and e-health); a dynamic environment for e-business and, as an enabler for these, widespread availability of broadband access at competitive prices and a secure information infrastructure'[6].

The Action Plan sets out a strategy to make broadband infrastructure available to businesses and people throughout the EU at affordable prices. It also draws attention to the need to develop adequate content and services, with particular emphasis on areas where government can make the difference by supporting, with EU cooperation and possible use of the Structural Funds, deployment of broadband in less favoured regions. The results can be summarised as follows:

- the Initiative has helped to stimulate competition between alternative platforms and operators and to focus Member State and Community efforts on key disparities across the EU. Yet, despite broadband lines in the EU doubling between July 2002 and July 2003, availability remains extremely uneven in different areas;

- the overall volume of online transactions remains modest and differences persist between Member States, notably due to gaps in Internet access rates;

- there is continuing expansion of online availability of the 20 basic public services identified in *eEurope*, with the proportion available increasing from 45% in October 2001 to 60% in October 2002 and while differences between Member States still exist, those lagging behind are catching up fast;

- there is a rapid development of Government services online in all of the accession countries, some of which are more advanced than EU Member States in certain areas;

- the proportion of EU schools online increased from 89% in March 2001 to 93% in March 2002, with no major differences between Member States, except for Greece, where only 59% of schools were connected. The number of computers connected to the Internet rose from 4 per 100 pupils to almost 6 per 100 over the same period.

At the 2002 Barcelona European Council, the target was set of increasing investment in research and technological development (RTD) in the EU by 2010 to 3% of GDP (two-thirds of this in the private sector), up from just under 2% in 2000. The Sixth Community Framework Programme on RTD, with an overall budget of EUR 17,5 billion, has been launched to help achieve this[7], in combination with the European Research Area (ERA) Initiative[8], introduced to reduce fragmentation of research activities across the EU, increase investment in research and improve the environment for realising the potential benefits from research.

Participation of the Cohesion countries and lagging regions in the Fifth Framework Programme (1998–2002) was as follows:

- organisations in the Cohesion countries accounted for 17.8% of participants in Community RTD contracts signed between January 2002 and March 2003, marginally higher than their share of EU population (17.1%) and up from 16% in 2001. In terms of finance, however, they received less than their share of population (14.6%) but this was more than in 2001 (12.2%). In addition, just over 31% of the cooperation links established between organisations in the EU in 2002 included participants from the Cohesion countries;

- disparities across regions are more marked, reflecting the concentration of research in comparatively few areas. Some 14% of the organisations participating in the Fifth Framework Programme were based in Objective 1 regions, the same as in the Fourth Programme (1994–1998). Of the 64 Objective 1 regions, just 8 (Ireland, Berlin, Lisboa e Vale do Tejo, Attiki, Kriti, Comunidad Valenciana, Andalucía and South Yorkshire) were responsible for over half of the projects. The first three of these are no longer full Objective 1 regions;

- so far as SMEs participation is concerned, more than 4,600 SMEs signed a contract in 2001. Some 77% of projects came from businesses with fewer than 50 employees and 42% from businesses with fewer than 10. A number of these were located in acceding and associated countries. Although the SMEs awarded contracts were a tiny fraction of the total in the Union, they accounted for over 23% of participants in the four thematic programmes and received over 15% of the total funding.

Several initiatives have been launched to reinforce the role of regions in the creation of the ERA:

- innovation activities under the Fifth Framework Programme (with a budget of EUR 119 million), supported the networking of businesses and other organisations at regional level, in conjunction with the innovative actions of the Structural Funds;

- the Programme also financed the "Innovating Regions of Europe" (IRE) network Initiative[9] to facilitate exchange of experience and good practice between regions, including between advanced and lagging regions, in the accession countries as well as the present EU15;

- in the same context, a new pilot initiative[10] was launched in 2003 with a budget of EUR 2.5 million, aimed at developing experimental activities involving networks of European regions (with the active involvement of universities, research centres and the business community) so as to create 'Knowledge regions' which could serve as models for the implementation of the Lisbon strategy at regional level;

- several projects aimed at developing regional 'foresight' have been supported within the STRATA actions of the Improving Human Potential (IHP) programme (total budget EUR 25 million) to promote long-term strategic thinking and bridge the gap between regional policy and RTDI policy. Special attention has been given to the accession countries.

Looking ahead, the Sixth Framework Programme (2002–2006) through two new initiatives, the Networks of Excellence and the Integrated Projects, has the potential to improve links between more central and peripheral scientific centres, add to the EU's overall innovative capacity and combat the brain drain from less favoured to more prosperous regions.

Funding for human resource development in the Sixth Framework Programme has been doubled in money terms, with a potentially important effect on less favoured regions through technology transfer schemes. Moreover, a target has been set of spending at least 15% of the budget for the Thematic Priorities on SMEs.

In addition, new cooperation has been established between cohesion policy and R&D policy by enabling successful applicants to the Sixth Framework Programme located in Objective 1 regions to claim additional financing from the Structural Funds *via* the regional authorities concerned.

Education and training of key importance

The skills and qualifications of its people are the EU's prime resource and key to it becoming the most dynamic and competitive knowledge-baed economy in the world.. The "Education and Training 2010" programme has been implemented to help achieve this end, setting out 13 objectives[11] aimed at making education and training in Europe "*a world reference for quality by 2010*"[12]. A recent Communication[13] from the Commission calls on Member States to strengthen their efforts at all levels, particularly in relation to investment in education and training, in order to ensure the success of the Lisbon strategy. At the Brussels European Council[14] towards the end of 2003, Member States agreed to 'strengthen structured cooperation in support of the development of human capital'.

Although many Member States have made considerable efforts to reform and adapt their lifelong learning systems to the knowledge-based economy, the changes made are still not sufficient to meet the challenge. Evidence strongly suggests that in order to create and maintain a minimum level of knowledge-intensive employment, a region must first build up a critical mass of workers with a wide variety of skills. The Community has for many years organised networks linking universities, training institutes and businesses within and between regions and more recently has made efforts to establish networks of 'learning regions'.

At the same time, the increasing decentralisation of responsibility for education and training to regional level across the Union opens the way for the better organisation of training provision in line with both the needs of people and regional development plans.

More and better jobs in an inclusive society

The European Employment Strategy (EES) was launched at the end of 1997 with the primary objective of combating unemployment through preventive methods and active employability measures. Since 2000, it has been aimed at achieving the objectives set at Lisbon of full employment, better jobs and improved social and economic cohesion.

The Strategy was evaluated in 2002 and was streamlined and revised at the Brussels Spring Council of 2003 better to underpin in an enlarged Union the objectives set at Lisbon. The evaluation pointed to clear structural improvements in the EU labour market. In 2002, unemployment in the EU averaged 7.7% of the labour force as against 10.0% five years earlier, while equally relevantly the proportion of working-age population in employment increased from 60.7% to 64.3%. Despite marked differences between Member States and the difficulty of establishing causal relationships between employment outcomes and specific policies, some convergence of national employment policies towards the objectives and guidelines defined under the EES is discernible.

Efforts are continuing in most parts of the EU to ensure a new start, in the form of training, retraining, work practice, a job, or other employability measure to each person unemployed before they reach six months unemployment in the case of for young people and 12 months in the case of those over 24.

To deliver tailor-made services and support activation and prevention, effective Public Employment Services, equipped with sufficient capacity, are needed. Therefore the Member States are committed to modernising Public Employment Services, with some moving towards cooperation with the private sector. In most new Member States, the Public Employment Services, set up at the beginning of the 1990s, are also undergoing a continuous reform and modernisation process.

Trade policies and their impact on employment and cohesion

The opening up of trade is generally a source of benefit for economies, leading to shifts in the allocation of factors of production to more productive uses, gains in efficiency and economies of scale, greater competition, increased transfers of knowledge and technology and gains to consumers in the form of greater variety of choice and lower prices.

At the same time, it is also the case that the opening up of trade can lead to costs which are the counterpart of these benefits. Whatever the gains in the long-term, shifts in the allocation of factors of production can, therefore, involve costs of adjustment in the short-term for the enterprises and employees affected by increased imports.

Several features of the costs involved mean that they cannot simply be ignored:

- the costs are generally concentrated on certain sectors and regions, which means that for certain sections of the population they can be substantial and, accordingly, have a more damaging effect than if they were uniformly distributed across the economy as a whole;

- there tends to be no compensation paid by those who gain to those who lose, partly because of the difficulty of estimating the costs involved, and therefore some people (and regions) will be worse off at least in the short-term (which is an argument for assisting those concerned);

- the difference between benefits and costs tends to widen over time: costs tend to be higher in the initial years (foreign competition usually has a rapid effect on uncompetitive sectors) while most of the gains (from increased efficiency brought about by a better allocation of factors of production) take some time before they are felt. The empirical studies, therefore, tend to show that in the years immediately following the opening of trade, costs can amount to 10–15% of the gains, two or three times higher than in the long-term;

- costs and benefits differ equally between different places: the effect on regions depends on the international competitiveness of the sectors of activity located there, on the degree to which activities are spatially concentrated (especially traded goods) and the extent to which regions are specialised in the production of particular goods and services. Some regions will be adversely affected to a major extent by the opening of trade while others will gain.

There also tends to be a marked asymmetry in the perception of costs and benefits, which has inevitable political consequences. While the costs are very visible, and very alarming, not only because of their concentration but also because of their more tangible nature (the closure of factories, redundancies and so on), the gains tend to be less visible in part because of being intangible — or at least more difficult to measure (greater variety of choice for consumers, for example) — less striking and more diffuse.

Despite the typically low costs of adjustment, the accompanying measures taken when trade is opened up are, therefore, of critical importance from both an economic and political perspective. This importance is all the greater since well-targeted accompanying policies can limit the adjustment costs by anticipating them so far as possible and easing the adjustment process that needs to take place. An early identification of the vulnerable sectors and workers involved should, therefore, enable costs to be minimised. At the same time, when the problems arise, the provision of assistance to the individuals concerned to help them make the necessary adaptation can accelerate the change and minimise the scale of adjustment costs.

It is in the interest of the EU to help ease any adjustment process which is necessary and to contribute towards covering the costs of the policies which it has implemented. This it did over many years under the European Coal and Steel Community. The development of the same kind of policy for facilitating change will be all the more important in the years to come when many trade agreements will either come to an end or will need to be renewed (the Multi-Fibre Agreement, the EU-Chile agreement) and new agreements will need to be negotiated (DDA, EU-Mercosur), the overall consequence being almost certainly a substantial increase in imports of sensitive goods.

Through the EES, employment policies in Member States are coordinated on the basis of common objectives and priorities. The Strategy calls for the involvement of all relevant parties in the public and private sector, including the social partners, according to the institutional setting in the country concerned. The EES Guidelines specify that the strategy should be implemented effectively at regional and local level as well as at national level, and the Commission has called for greater involvement of relevant actors.

In 2002 and 2003, the employment situation in each of the accession countries was reviewed in some detail in order to define appropriate employment policies in preparation for the implementation of the EES on accession and develop plans for expenditure under the ESF during the 2004 to 2006 period.

The revision of the EES in 2003 resulted in the simplification of the Guidelines which now comprise three overriding objectives:

- the achievement of the employment rate targets set at Lisbon;
- quality and productivity at work, as evidenced by more and better jobs;
- an inclusive labour market, in which unemployment is reduced and social and regional disparities in access to the labour market narrowed.

In addition, there are 10 specific guidelines for structural reform. Success in implementing the EES will depend on the increased adaptability of workers and enterprises, more people being attracted into employment, more and better targeted investment in human capital and better governance.

The new EES is closely connected with policies for economic and social cohesion, the three overriding aims as well as the specific guidelines having the common aim of reducing social inequalities and regional employment disparities.

Social inclusion and gender equality

The Treaty of Amsterdam extended the mandate of the EU to combat social exclusion. The Lisbon Summit, therefore, set the aim of taking a decisive step towards eliminating poverty and social exclusion in the EU by 2010.This goal was further elaborated at the Nice Summit and since then a common strategy for social inclusion has been implemented, with the same method of open coordination as for employment policy being adopted, except that Member State participation is voluntary rather than mandatory. In practice, all Member States have become involved in the process and the first national action plans against social exclusion were submitted in June 2001, giving policies in this area greater visibility.

The plans enabled 8 major challenges for future policy to be identified: to develop a labour market conducive to inclusion and to give everyone the opportunity and right to employment; to ensure that everybody has an adequate level of income to give them a decent standard of living; to tackle educational disadvantages; to preserve the family and protect the rights of children; to ensure everyone has decent housing; to guarantee access to quality services; to improve delivery of services and to regenerate areas suffering from multiple deprivation.

A second generation of national action plans produced at the end of July 2003 should give new impetus to the process. On the basis of Member States proposals, 8 annual evaluation exercises will be undertaken of particular policy themes, involving 3 to 6 Member States, independent experts, social partner representatives and regional and local authorities as well as people who are actually experiencing poverty or social exclusion.

In parallel, cooperation is underway with the accession countries in preparation for their participation in the strategy once they join the Union, and together with the Commission, they have produced memoranda on social inclusion, identifying the main

problems and challenges and putting forward priority policy measures.

The list of indicators adopted at the end of 2001 should enable the situation in each country to be better measured. It comprises 7 structural indicators that the Commission uses as a basis for its annual synthesis report on the economic and social situation in the Union and needs to be extended for the next generation of plans to include both regional and non-financial indicators.

Other activities undertaken as part of the Community Programme on Social Inclusion, funded by a budget of EUR 75 million for the period 2002 to 2006, include the exchange of experience between countries (64 projects supported in the first phase and almost 30 in the second) and studies on specific issues, all of which should strengthen cooperation, increase common understanding and stimulate new approaches.

A new strategy to tackle social exclusion is, therefore, underway, with all Member States being increasingly involved, even if on a voluntary basis, which adds a new dimension to convergence and which reinforces the European social model as well as helping to achieve a better balance between the social and economic policies of the EU.

Equal treatment of men and women is a fundamental principle in the EU. Since 1996, a mainstreaming approach has been followed and all Community policies have taken account of the gender impact in their planning and implementation.

Environmental protection for sustainable growth

The main new environmental initiative of the last two years was the adoption by the European Parliament and the Council[15] of the 6th Environmental Action Programme: Our Future — Our Choice (6th EAP). This places the environment in a broad perspective, taking account of economic and social conditions and emphasises the Lisbon and Gothenburg objectives.

The Programme has four broad elements: effective implementation and enforcement of environmental legislation (the *acquis*); integration of environmental concerns into other policies, including on infrastructure; use of a combination of means to achieve ends in the most efficient and effective way; and wide stakeholder involvement in the development and implementation of policies.

The Programme singles out four areas for action: climate change; nature and biodiversity; the environment and health; natural resources and waste. It also introduces a new concept of 'thematic strategies' as a way of tackling particular complex environmental issues[16] and of determining the priorities for Community intervention, including measures financed by cohesion policy. It proposes, in addition, the gradual removal of subsidies with negative effects on the environment, which are incompatible with sustainable development.

Because less prosperous countries tend to have a smaller amount of environmental infrastructure initially, the scale of expenditure required to meet the Directives tends correspondingly to be both larger and to account for a larger share of GDP (given that this is relatively small). The Structural Funds, therefore, have a clear potential role to play in helping these countries comply with EU environmental policy.

Despite the high direct costs involved, the policy is designed to reduce both financial and social costs over the long-term by reducing health hazards and the need for measures to clean up pollution. The World Health Organisation, for example, has recently estimated that 100,000 premature deaths in Europe can be attributed to particulate matter[17]. Emissions of airborne particulate matter in the accession countries are expected to fall by between 1.8 and 3.3 million tonnes by 2010 as a result of compliance with EU Directives, so reducing premature deaths by around 15,000.

Compliance with EU legislation also means cleaner drinking water in the accession countries, with

particular gains in Bulgaria and Estonia (as well as Turkey) where 20–30% of households are not connected to main water supplies, while implementation of the Urban Waste Water Treatment Directive is estimated to reduce nutrient pollution by between 33% (in the Czech Republic) and 67% (in Poland).

Despite a projected 2% growth in waste generation, the Landfill Directive is estimated to produce a reduction of waste disposed of in this way from around 59 million tonnes in 1998 to between 20 and 35 million tonnes in 2020, while the Directive on packaging waste is estimated to increase the amount of waste recycled by 3.7 million tonnes by the same year.

Investment in environmental protection may also create employment. Eco-industries taken together directly account for around 1% of total employment in the EU15, while jobs are expanding in waste management (recovery and recycling), which total around 200,000 to 400,000. The same trends are apparent in the accession countries.

The majority of the investment associated with the Directives has already taken place in the EU15 (some 63% or so before 2001), though the proportion varies across environmental domains. In the case of waste disposal, investment is virtually complete, while for water supply, some 72% had been undertaken before 2001. The only area in which most of investment is still to occur relates to controls on air pollution, though in terms of the scale of expenditure, waste water treatment is likely to be more important. Nevertheless, large investment for control of airborne emissions is likely to be required as result of the Integrated Pollution Prevention and Control (IPPC) Directive and the climate change agreements under the Kyoto Protocol.

Over the past 15 years, the environmental provisions of cohesion policy have been strengthened and current Structural Fund rules make protection of the environment a horizontal principle and conformity with the environmental *acquis* a top priority[18]. It is, therefore, important that the objectives of the Environmental Action Programme and the requirements of environmental legislation are taken into account in structural interventions across the EU.

Internal market and services of general interest

The development of trans-European networks in transport, telecommunications and energy are intended both to help make the internal market a reality and to strengthen economic and social cohesion. EU policy in this regard is aimed at ensuring the interconnection, and interoperability, of national networks and access to these in the context of open and competitive markets. It takes particular account of the need to link island, land-locked and peripheral regions with central areas of the Union. These policies have a direct effect on the competitiveness of the EU economy as a whole and influence the location of economic activity. Because of this territorial effect, cohesion needs to be one of the major objectives of network policies.

This is also important in the light of the opening of these sectors to competition. While this has resulted in a reduction in costs and increase in the efficiency of the services provided, it is evident that freeing market forces can lead to particular social groups or parts of the EU being excluded from having access to essential services. Liberalisation is, therefore, being accompanied by a growing requirement to establish public service obligations in order to preserve and strengthen economic and social cohesion. Network policies are, therefore, prominent among those which bear on the issue of services of general economic interest, the importance of which was emphasised at the Barcelona and Laeken Councils.

In a changing world, services of general interest are a key element of the European model of society. This is enshrined in Article 16 of the EU Treaty and Article 36 of the Charter of Fundamental Rights. This places the individual citizen at the heart of the Union's priorities. The Commission has, therefore, set out its reflections, in a Green Paper in May 2003, on the possible ways of

3.1 Trans-European Transport Network projects of European interest

- "Essen" Rail project
- Rail project (2001)
- Rail project (2003)
- "Essen" Road project
- Road project (2001)
- Road project (2003)
- Inland waterway project (2001)
- Inland waterway project (2003)
- Motorway of the sea (2003)
- Airport projects
- Port projects

Source: DG TREN

0 250 500 km

implementing these services effectively, largely by involving non-Government organisations and civil society generally.

The very nature of services of general interest involves them in public service obligations introduced at the same time as liberalisation of the sectors concerned. Their purpose, depending on the type of service concerned, is to ensure that the service is universally available, that the continuity of the services offered and their quality is maintained and that prices are affordable, taking account in all aspects of the need to protect consumer interests and to safeguard supply. The Community is providing financial support to Member States to ensure that they are respected and is, for example, using the Structural Funds to ensure complete territorial coverage of mobile telephone and broadband networks.

Transport policy

Policy on trans-European networks for transport (TEN-T) has, since the Maastricht Treaty, been directed towards integrating the European 'space' and alleviating the isolation of peripheral areas, so preventing a fragmented development of national networks. The construction of cross-border routes and the improvement of existing ones, therefore, enables the 'frontier effect' which hinders growth of trade to be progressively reduced. At the same time, the TEN-T guidelines are aimed at promoting a shift away from environmentally-harmful modes of transport.

The TEN-T policy has improved accessibility perceptibly since 1991 and even greater effects are expected over the coming years, especially in the accession countries. This investment, however, needs to be accompanied by substantial expenditure to improve the secondary network and its connections with the TEN-T. This is particularly so as regards rural areas in the east of these countries, in which reaching a motorway can in places take up to three hours.

Following the 2001 White Paper on Transport Policy, revisions were made to the 1996 TEN-T guidelines at the end of 2001 and new priority projects were announced. This list of projects of European interest was extended in October 2003 to cover the accession countries (Map 3.1).

In view of the considerable finance needed for these networks, the cost of which is estimated at almost EUR 600 billion up to 2020, the Commission also adopted a Communication in April 2003 on possible new ways of funding the development of TENs in Europe in order to secure a better coordination of public and private finance. In parallel, the Commission adopted a proposal in July to revise the Eurovignette Directive on the pricing of infrastructure and to link charges to users more closely to costs. The proposal, however, limits the level of tolls which can be charged, the aim being to avoid excessive charges reducing the beneficial effects on accessibility and economic development. In this regard, impact analysis of the revision of the TEN-T guidelines shows a substantial gain (20%) in accessibility for the peripheral regions and the accession countries and a considerable increase (170%) in international traffic for the latter countries[19].

In practice, the effects of liberalisation are most measurable as regards air transport. The number of cities with international connections has increased by 70% since 1992, while economy fares fell on average by 15% between 1997 and 2000 (though business fares rose)[20]. In addition, public service obligations have been imposed in respect of peripheral areas and those with a low volume of traffic, so helping to support their economic development. These obligations are often combined with the provision of subsidies.

Energy policy

EU Energy policy has three main aims: to achieve greater security of supply, to create an internal energy market and to protect the environment better. The 2002 Green Paper, *Towards a European Strategy for the Security of Energy Supply*, identifies the management of demand as the key priority for the future, emphasising improvements in energy efficiency and

the development of internal energy sources, especially renewable ones.

Following the Electricity Directive in 1996 and the Gas Directive in 1998, energy markets have been liberalised, so introducing more competition and giving rise to restructuring of supply, benefiting large energy consumers in particular, but carrying the risk of disadvantaging the more peripheral and less populated regions. This risk, however, has been mitigated through the imposition of public service obligations. Further regulatory measures are in prospect to assist these regions, including an obligation to maintain energy supply, the regulation of charges to final consumers and the imposition of minimum quality standards.

In conformity with the Treaty, the policy on trans-European Networks for energy (TEN-E) has the same common aims as for transport and other networks, to ensure that national grids across the EU are connected, that all regions have access to these and that the grids are managed at the European rather than the national level[21]. The regional dimension and considerations of economic and social cohesion were taken into account in the first Community guidelines as regards the TEN-E[22]. Significant progress has been made in construction of these networks, with support of the Structural Funds. Five gas pipelines entered into service before the end of 2001 and several major electricity distribution projects were completed, with substantial investment in peripheral regions.

The latest TEN-E guidelines, adopted in June 2003, put the emphasis on the development of electricity distribution networks and the introduction of natural gas in land-locked areas and peripheral and ultra-peripheral regions.

The promotion of sustainable development is one of the main priorities for energy policy, in line with the commitments under the Kyoto Convention. The targets have been set of increasing the share of renewables in total energy consumption to 12% by 2010 and their share of electricity production to 22%, with a target for the use of biocarburants in transport of 5.75%. The TEN-E need, therefore, to be accompanied by support for investment at local level in energy generation from wind, solar and geothermal sources[23].

The development of new energy sources, such as natural gas and electricity produced from renewable sources, would enable peripheral regions both to diversify their energy sources — and so reduce their vulnerability to disruption of external sources of supply — and to improve the quality of life.

Telecommunication policy

The availability of efficient telecommunication networks at an affordable price is an important factor both for competitiveness and for improving the quality of life of people. Technological improvements and liberalisation of markets have led to a marked reduction in call rates, especially for long-distance and international calls, which has benefited the more remote regions, in particular, even if it has been accompanied by an increase in fixed charges.

The Universal Service Directive of March 2002 defined the corresponding obligations which will need to be respected in the future throughout the region. After years of liberalisation, critical gaps are evident in the geographical coverage of services, even those involving a mature technology like mobile telephones.

The TEN-Telecom programme, which became the eTEN in 2002, is aimed at strengthening economic and social cohesion, linking islands and the more remote regions with the central parts of the EU[24]. The main problem which the programme is intended to tackle is not so much 'missing links' in the network as the lack of applications and services for businesses, government and individuals. The activities funded, therefore, have the objective of assisting the development of an Information Society, open to all and facilitating the social inclusion of, for example, the elderly and people with disabilities.

In 2002, as noted above, the eEurope 2005 action plan was launched, which included a strategy of making broadband networks available to everyone in the EU at an affordable price. By 2005, the aim is to extend availability to half the Internet connections in Europe. It is evident, however, that in the absence of a sufficient level of profitability, the investment required to cover all parts of the EU completely will not be secured by the market alone but will need public funding. To this end, the Commission established new guidelines in 2003 for the development of broadband networks and for the coverage of areas not yet served by mobile telephony with the support of the Structural Funds.

Reforming common policies: CAP and fisheries policy

Common agricultural policy

In 2003, the CAP absorbed around 46½% of the EU Budget, overall expenditure amounting to just over EUR 47 billion, 90% going to the first pillar for market support and direct aid and 10% to the second pillar for rural development.

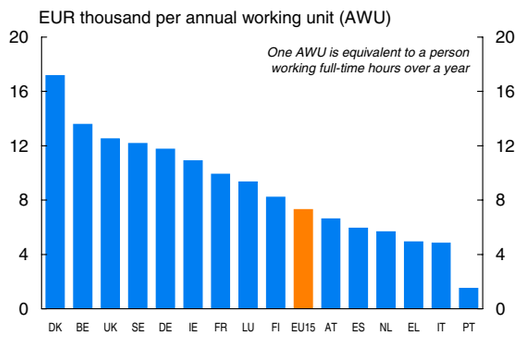
EU expenditure on agriculture has increasingly declined in relation to GDP, from 0.57% of EU12 GDP in 1990–1992 to 0.47% of EU15 GDP in 2000–2002. Agenda 2000 deepened and extended the reform of the CAP begun in 1992, reducing official prices and direct aids. It also contributed to consolidating rural development along with the second pillar of the CAP and to creating a coherent framework for adapting the CAP to the features of agriculture in the accession countries. In addition, it reformulated the objectives of EU agriculture policy:

- to improve agricultural competitiveness in the EU without excessive recourse to subsidies;
- to preserve the level of farmers' income and its stability;
- to respect the environment and the diversity of the countryside;
- to improve the quality of agriculture produce;
- to simplify and decentralise the CAP.

Because of the reduction of official market prices and the increase in direct aids to producers in place of those linked to price support, direct aids (excluding direct payments for rural development) accounted for 70% of CAP expenditure in 2000–2002, 7 percentage points more than in the 1995–1997 period. By contrast, traditional CAP measures, such as aids for exporting or stock-building, represented only 14.5% of expenditure in 2000–2002 as against 22% in 1995–1997.

In 2001, 4 Member States received 64% of payments from the EAGGF Guarantee, namely, France (22%), Spain (15%), Germany (14%) and Italy (13%). Since 1990, payments to Belgium, Denmark, Greece, the Netherlands, Italy, Ireland and Germany have been reduced, while those to the UK, Spain, Portugal and France have increased. If payments are related to the number of hectares, Belgium, the Netherlands and Greece are the main recipients, though the first two countries are the only ones recording a reduction in these terms

3.1 Expenditure from the Guarantee section of the EAGGF, 2002



Source: DG Agriculture and Eurostat

since 1995. In relation to employment, payments are highest in Denmark, the UK, Sweden and Belgium (Graph 3.1).

In Sweden, Finland and Ireland, the share of EAGGF transfers in gross agricultural value-added was over 50% in 2000–2001 and it was below 20% only in Italy, Luxembourg and the Netherlands. The share generally increased between 1995–1996 and 2000–2001, though it declined in Belgium. The increase was especially marked in the UK, Austria and Spain. It also rose in Germany, Greece and France in relation to both employment and hectares but it fell in relation to agricultural value-added.

Payments to Portugal and Spain also increased, though the former remains the one Cohesion country where the level of support is less than the EU average, whether payments are related to employment, hectares or agricultural value-added.

In 2001, the largest effect of direct CAP aids was on the income of medium-sized to large holdings (representing 40% of income) rather than on the income of large (28%) or small holdings (24%). At the same time, some 5% of recipients in the largest holdings account for half of all payments, the main beneficiaries being specialised cereal producers and cattle breeders.

Outside Objective 1 regions, measures for rural development are financed by the EAGGF-Guarantee section. In Objective 1 regions, this section finances the three accompanying measures introduced as part of the 1992 CAP reform — agri-environment, early retirement of farmers and afforestation of agricultural land — as well as support for mountainous and disadvantaged areas. All the measures are directed at specific priorities for rural development, namely: the development of a competitive agricultural sector respecting the environment, diversification of agricultural activities and the promotion of multi-functional rural areas, support for the competitiveness of rural areas as a whole and preserving the European rural heritage.

Of the funding for rural development from the EAGGF (totalling around EUR 49.5 billion over the period 2000–2006, excluding LEADER+ which accounts for another EUR 2 billion), EUR 32 billion comes from the Guarantee section. Of this, EUR 10.4 billion is directed towards Objective 1 regions. Including funding from the Guidance section (EUR 17.5 billion in total), the overall amount for rural development in Objective 1 regions totals EUR 27.9 billion, 56% of the total allocated to this across the EU. This demonstrates the strong link between rural development policy and the priority objectives of economic and social cohesion.

Analysis of the measures implemented, however, shows that of the total amount of EUR 49.5 billion, only around 10% is being spent on measures to strengthen the rural economy which are not linked to agricultural activities (such as diversification towards tourism and craft trades, services and the development of villages). A large part of the funds for rural development (EUR 23.4 billion, 47% of the total of the two EAGGF sections or 73% of the Guarantee section) is allocated to the accompanying measures noted above.

As regards the future of the CAP, the Brussels Council of October 2002 established the nominal amount of spending on market management and direct payments for each year 2007 to 2013, based on an annual growth of 1%. This implies a reduction in expenditure in real terms under the first pillar. Expenditure on the second pillar of the CAP has not yet been determined, although it has been re-affirmed that, in line with Agenda 2000 objectives, the CAP in future should safeguard the interests of producers in the disadvantaged regions of the present EU, in particular, and maintain a multi-functional agricultural sector in all parts of the EU.

In June 2003, the Agriculture Council of Ministers in Luxembourg, following Commission recommendations, agreed a reform of the CAP for the periods 2004 to 2006 and 2007 to 2013. The four main elements are:

- the decoupling of direct aids from production through the introduction of a single payment per holding, which will be related to respect for the environment, food safety and animal welfare. The general rule will be that Member States should decouple their payments for cereals and animals from 2005, though it will be possible to continue paying certain subsidies under the old system until 2006;

- a progressive reduction of direct payments to larger holdings (termed 'modulation');

- a series of sectoral measures for agricultural markets leading to lower prices;

- the strengthening of the second pillar through the introduction of new measures for promoting the environment, quality and animal welfare as well as helping farmers to comply with Community norms, financed in part by the savings from `modulation´, ie by the transfer of some of the amounts obtained by the reduction in direct payments to large holdings.

In future, the potential of the CAP to have an effect on cohesion will depend more than in the past on the objectives defined by Member States, and, where relevant, by regions, which will have wider scope for determining the form of direct payments. At the same time, farmers will have more flexibility over their decisions on production, which should be more market oriented and ensure a more stable income as well as increasing the efficacy of income transfers.

Rural development has a more prominent place in the new CAP. There will be an effective transfer of funding from the first pillar to the second through a reduction in direct payments of 3% in 2005, 4% in 2006 and 5% from 2007 up to 2013 (a process termed 'modulation' as noted above). A transfer of 5% will mean an additional EUR 1.2 billion a year to finance rural development and environmental protection, quality improvements and animal welfare, as well as assisting farmers to apply the new Community norms. The distribution of the additional amounts under the second pillar, as a result of this process of 'modulation', will be made on the basis of cohesion criteria at Member State level (agricultural land area, agricultural employment and GDP per head). In addition, the rate of Community co-financing of agri-environmental measures has been increased to 85% in Objective 1 regions and to 60% elsewhere.

Enlargement will lead to a marked widening of disparities in agriculture and an increase in its dual nature because of the large number of small holdings in the accession countries with larger employment than in the EU15. The number employed in agriculture in the EU will increase from around 6½ million to 10½ million, raising the share of total employment from 4% to 5½%, which would become 7½% if Bulgaria and Romania were also to join. Value-added in agriculture will be increased by under 8%.

On the basis of present figures, 9 of the 10 new Member States will have Objective 1 status over all or virtually all of their regions, and it is estimated that around two-thirds of funding from the two sections of the EAGGF for rural development will go to such regions in the future EU25.

Fisheries

The main aim of the Common Fisheries Policy (CFP) is to strengthen the competitiveness of the sector. It has four elements: the conservation of fish stocks, the restructuring of fishing and fish farming, the organisation of the market for fish and associated products and agreements on fishing with third countries.

The 2002 reform was essentially directed at the first two elements, introducing a system of longer-term planning aimed at sustaining fish stocks and replenishing the stocks which have been depleted to dangerous levels. Emergency measures were, therefore, introduced to protect stocks as well as marine eco-systems.

As regards the restructuring element of the CFP, a new system of limiting the capacity of the fishing

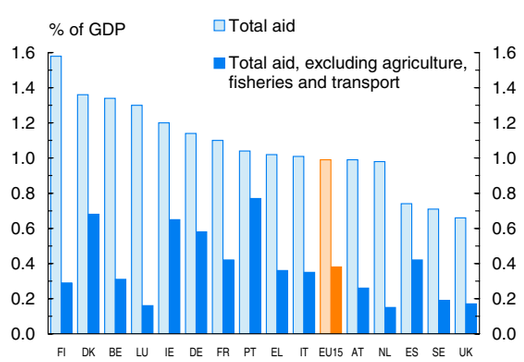
fleet has been introduced, giving more responsibility to Member States to balance capacity in relation to fish stocks. In addition, a reorientation of Community structural measures entails the progressive reduction of state aid to private enterprises wishing to modernise their fleets, while maintaining aid for improving safety and working conditions. This will be supported by the creation of a new emergency Fund aimed at encouraging the decommissioning of fishing boats.

A Commission action plan has recently been launched to tackle the social, economic and regional consequences of restructuring. It is difficult at this stage to identify the regions and areas which will be most affected by the fishing quotas which have been set.

Plans for rebuilding the stocks of the most threatened species will be established in the near future. These will include rules for the calculation of the annual catch rate for these and measures for reducing fishing as well as for monitoring and control.

In the short-term, reductions in the catch will inevitably lead to a reduction in income from fishing, the extent of which will vary across the EU. Activities linked to fishing (ship-building, suppliers, processing and marketing of fish and fish products) will also be affected to varying degrees in different parts of the EU, depending on the extent of reliance on the industry.

3.2 State aid in Member States, 2001



Source: DG COMP, State Aid Scoreboard

In the longer-term, the rebuilding of stocks, increases in the catch and a lessening of competition between fishing boats operating in a given area should serve to increase profitability which could more than compensate for reduced activity while stocks are recovering. Member States should, therefore, be prepared to respond to the social and economic effects of the necessary restructuring of the sector:

- by subsidising the decommissioning of fishing boats in cases where fish stocks are too much under threat to enable a reasonable level of income to be generated over the long-term and supporting their conversion to other uses;

- by compensating for the loss of income during temporary periods of suspension of fishing, within the limits and according to the conditions specified in the CFP.

Ten of the accession countries have maritime coasts, but only Poland and the three Baltic States have a significant fisheries sector. Nevertheless, the total catch of these three countries amounts to less than 7% of the total EU catch (though 17% if Turkey is included), even taking account of fish farming. Since the transition began in these countries, they have experienced a substantial fall in their fish catch as a result of the over-exploitation of stocks and the loss of markets in the former Soviet Union.

The effect of enlargement on the CFP will, therefore, be limited. On the other hand, significant structural measures will be necessary to enable restructuring and modernisation of the sector to take place.

Complementarity between state aid and cohesion policy

As has been recognised by successive European Councils, strict control of state aid is necessary to achieve the Lisbon objectives and Member States have been called on to reduce the overall amount of

Table 3.1 State aid per head in Member States, 1997–2001

	Total aid per head (PPS)			Total aid per head excluding agriculture, fisheries and transport (PPS)		
	1997–1999	1999–2001	% change	1997–1999	1999–2001	% change
EU15	251.0	226.0	-10.0	123.0	97.0	-21.1
BE	322.0	325.0	0.9	83.0	80.0	-3.6
DK	274.0	360.0	31.4	144.0	186.0	29.2
DE	313.0	288.0	-8.0	179.0	157.0	-12.3
EL	185.0	155.0	-16.2	73.0	61.0	-16.4
ES	178.0	154.0	-13.5	112.0	90.0	-19.6
FR	286.0	263.0	-8.0	145.0	109.0	-24.8
IE	320.0	329.0	2.8	226.0	188.0	-16.8
IT	284.0	231.0	-18.7	132.0	84.0	-36.4
LU	450.0	578.0	28.4	108.0	82.0	-24.1
NL	207.0	246.0	18.8	43.0	44.0	2.3
AT	265.0	251.0	-5.3	65.0	61.0	-6.2
PT	252.0	177.0	-29.8	190.0	133.0	-30.0
FI	439.0	396.0	-9.8	89.0	78.0	-12.4
SE	169.0	169.0	0.0	48.0	48.0	0.0
UK	112.0	115.0	2.7	53.0	42.0	-20.8

IE: Data cover the period 1998–1999 instead of 1997–1999.
Source: DG Competition, State Aid Scoreboard

aid and to reorient it towards horizontal areas of common interest, including cohesion objectives.

Control of state aid can make a positive contribution to cohesion. By allowing aid only to regions and sectors where it is most needed and has the least effect in distorting competition, control serves to concentrate aid on regions which are in most need of catching up and so helps to reduce regional disparities across the Union. At the same time, the discipline exercised by control encourages Member States to put money into schemes which bring tangible results to both them and the EU as a whole and, accordingly, tends to improve the effectiveness of public intervention.

Overall expenditure on state aid across the EU fell from EUR 102 billion in 1997 to EUR 86 billion in 2001. This fall was due to a significant reduction in aid to financial services, the coal industry, agriculture and manufacturing as well as in aid to assisted regions (Graph 3.2).

The level of state aid in relation to GDP declined in 12 of the 15 EU Member States between 1997–99 and 1999–2001 (Table 3.1), in line with the commitment made at the Stockholm Council to reduce aid by 2003 at the latest. Within this, moreover, the share of aid going to support horizontal objectives increased by 10 percentage points between the two periods.

The State Aid Scoreboard, nevertheless, shows that significant disparities remain between Member States in aid to manufacturing and that the gap between the level in the most prosperous Member States and that in the four Cohesion countries hardly changed over the period. The Cohesion countries (11.5% of EU GDP in 2001) continued to account for 10% of total expenditure on state aid to the manufacturing sector in 1999–2001, whilst the share of the four big economies (Germany, France, Italy and the UK — 72% of EU GDP in 2001) fell from 79% in 1997–1999 to 76% in 1999–2001.

Aid to lagging regions

In 2001, around EUR 8 billion of state aid, some 9% of the total[25], went to regions in the EU classified as type 'a'[26], which are almost precisely the same as Objective 1 regions[27]. This was much lower than the a peak of EUR 27 billion in 1993, when Germany (EUR 17 billion) and Italy (EUR 7 billion) accounted for nearly 90% of the total. In 2001, these two countries were still responsible for more than half of regional aid, though in absolute terms, the amount spent was much smaller than 8 years previously (EUR 2.5 billion in Germany and EUR 2,1 billion in Italy). This biggest reduction was in aid to the new German Länder, which received substantial amounts immediately following unification. Between 2000 and 2001, however, the overall value of type 'a' aid remained much the same.

Aid to other problem regions

In 2001, around EUR 800 million of state aid (excluding agriculture, fisheries and transport) went to wholly assisted regions of type 'c'[28], these corresponding closely to those eligible for Objective 2 support from the Structural Funds. In addition, nearly EUR 4.5 billion went to NUTS 2 regions of type 'c' which were partially assisted. Unfortunately, lack of data below the NUTS 2 level means that it is not possible to determine the proportion of these aids which went to assisted parts of regions[29] and, therefore, to compare the extent of aid between Member States.

Although most Member States have reduced State aid and reoriented it towards horizontal objectives, in line with EU strategy, reorientation towards cohesion objectives is less evident since regional aid has declined.

State aid and the Lisbon-Gothenburg objectives

Policies on cohesion and on state aid are complementary; both are aimed at contributing to the Lisbon and Gothenburg agenda for pursuing growth, competitiveness and sustainable development throughout the EU. In the less-developed regions, the challenge of achieving the Lisbon-Gothenburg objectives is by definition significantly greater than elsewhere. Hence the need for increased aid (for investment in public goods and institutional capacity building), higher aid intensities (to encourage inward investment) and substantial support from the EU Budget (the 'convergence/solidarity' element of cohesion policy). The common task of both policies is to establish a framework in which Member States and regions, with appropriate levels of support from the EU, can develop and implement effective strategies for growth and competitiveness, without either having an adverse effect on economic development, at regional, national or EU level, or giving rise to a wasteful misallocation of scarce budgetary resources.

The Commission has recently begun an in-depth examination of the existing regional aid guidelines, which need to be revised in order to allow Member States to plan ahead for the period after 2006 when the present aid maps expire. This revision will take account of the development of cohesion policy at EU level, as well as of national and regional policies aimed at achieving the Lisbon and Gothenburg objectives. It should reflect wider objectives for State aid policy which have their origin in the Lisbon agenda. The principal aim, confirmed at the Stockholm and Barcelona Councils, will be to have 'less and better targeted State aid', implying perhaps a more thematic approach outside the less developed regions as well as tighter controls on the most distorting and wasteful forms of aid.

In 2002, the Commission also adopted a new block exemption regulation for state aid for employment[30], which, by eliminating the need for prior notification of aid for job creation or to encourage the recruitment of disadvantaged workers, should result in a simplification of Community co-financing procedures for certain aid schemes. Moreover, the

regulation explicitly takes account of the specific features of the weakest regions by providing for an increase in aid intensity for the creation of employment in these.

As regards state aid measures which are not explicitly covered by the existing frameworks, guidelines and regulations, the Commission will continue to consider the possibility of introducing a mechanism to determine whether these measures distort competition. Such a new approach could allow Member States the flexibility to intervene in all regions to support employment, competitiveness and cohesion in pursuit of the Lisbon objectives.

Justice and home affairs: improving conditions for development

High levels of criminality, the existence of organised crime and corruption all tend to inhibit the economic development of the areas affected, in particular by deterring new investment, especially from outside. Perceptions that law enforcement lacks the capability of properly addressing these problems adds to the deterrent. A secure environment in which the rule of law is predominantly respected, therefore, represents an essential precondition for sustainable economic development.

Three aspects of EU policy on justice and home affairs are particularly relevant for cohesion policy:

- a strengthening of judicial and administrative capacity, cross-border cooperation and the fight against organised crime and corruption is important to support the maintenance of a stable economic and political environment, which, in turn, is important for development. This will be all the more the case following enlargement;

- the involvement of local and regional authorities in the development and implementation of immigration and asylum policies. These authorities, together with the social partners, NGOs and other local actors, play an increasingly important role in integrating third country nationals into society and economic life;

- the management of external borders, so complementing cross-border measures supported by the Structural Funds.

While there is a need for better understanding of the geography of crime and the vulnerability of particular regions to organised crime, it is, nevertheless, possible to highlight certain regions and areas which have a high level of criminality which can affect their development.

Although there are marked differences between the countries, organised crime rates are particularly high in some of the accession countries and tend to be increasing[31].The form which criminal networks take in these countries directly affects not only their economic development and their potential but also security in the Union. For example, the practice of exploiting legal businesses (hotels and other parts of the tourist industry, health care facilities, real estate and banking) as a means of penetrating a region has become part of the standard *modus operandi* of organised crime groups in these countries. In addition, criminal organisations tend to take advantage of weaknesses in legal and administrative systems, and corruption and use of influence is relatively extensive in some of the accession countries. Public procurement and tendering procedures are particularly vulnerable and the combination of major asset transfers and weak institutions is especially susceptible to corruption. Considerable efforts were made by the accession countries, with PHARE support, to develop anti-corruption strategies and to strengthen law enforcement bodies. Nevertheless, perception of corruption is higher than in present EU Member States, in some cases markedly so, and much remains to be done in most of the countries.

Urban areas, especially those where sections of the population with most problems are concentrated,

living in difficult housing conditions with a lack of amenities, are another example. The URBAN Audit undertaken by the Commission has drawn attention to the link between urbanisation and crime. Nearly all cities where comparisons are possible have higher crime rates than the rest of the country. Rates are highest in cities in the north of the EU and in capitals elsewhere. According to the latest figures, moreover, rates are increasing in most cities. Significantly, EU structural policy, particularly in relation to urban development, includes the crime rate in the criteria for allocating funds and also includes crime along with police and judicial cooperation among its guidelines for action[32].

A further example concerns regions in the south of Italy in which two specific ERDF programmes have been undertaken in the 1994–1999 and 2000–2006 periods, aimed at combating crime, creating a safer environment and increasing confidence in the law in order to break the vicious circle of lagging development, high crime rates and insecurity.

Combating crime in the EU effectively, organised or otherwise, implies the need to develop the means of providing EU support for the efforts of regions and local communities to tackle deep-rooted traditions of crime which slow down economic development. This is particularly true in the accession countries, which lack the financial resources needed to fund effective measures for tackling organised crime.

As noted above (in Part 1), a coordinated approach is needed in order to integrate immigrants into society and the economy, which includes ensuring access to education and training, health and social services, decent housing and so on.

The perception of Community policies at regional level

At the request of the Commission, case studies were carried out in 28 regions across the EU in order to examine how Community policies and their effects were perceived by those on the ground responsible for implementing them. The regions selected covered nearly all Member States and included Objective 1 regions as well as other regions, either with areas eligible for Objective 2 or not eligible for Structural Fund assistance at all[33]. The Community policies emphasised in the study were the CAP, competition policy (state aid) and policy on R&D. The analysis is based on the data for each region and on interviews with regional officials. It should be emphasised that the views presented below are those of the officials interviewed and do not necessarily represent the opinion of the Commission. While it is not possible to generalise the results of the study, it does enable useful conclusions to be drawn about the perception of the contribution of Community policies to economic and social cohesion.

In most cases, 'Community policy' is taken to mean 'Community funding' and in the majority of cases, attention is focused on the amounts received from the CAP, the Structural Funds and state aids. Often, when other Community policies, such as on the environment, were referred to, the focus was more on the contribution of the CAP or Structural Funds rather than on the policies themselves.

The great majority of the case studies considered that Community cohesion policy, in the form especially of projects financed by the Structural Funds, is the most visible and has the greatest impact in the region (see Box in Part 4). This should be underlined since cohesion policy was not one of the priority areas identified for the case studies in the terms of reference.

The positive effect of the single market and economic and monetary union was implicitly recognised in the majority of cases. In a number of the case studies in Objective 1 regions, there was a more modest perception of the positive impact of the single market on convergence and cohesion, reflecting a recognition of its effect in increasing the importance of deficiencies in regional competitiveness, such as inadequate communication links or the peripheral nature of the area.

In regions undergoing radical industrial restructuring (West Midlands, Asturias, Magdeburg and Saarland), it was considered that the completion of the internal market had served to accelerate the process of structural adjustment which had begun earlier, giving rise to adverse effects on employment. At the same time, the important role played by the Structural Funds in accompanying this policy was both recognised and appreciated.

In all the regions, there was recognition of the significant impact of the Common Agricultural Policy (CAP), but observations about its consequences varied according to the type of region. In regions where agriculture is most important, the positive effect on the standard of living of farmers and on the restructuring, modernisation and diversification of the sector was recognised. On the other hand, this was less typical for Mediterranean type regions or in regions with forests, due to the perception that the CAP was less important in supporting the cultivation in which they specialise.

In this regard, several commentators in regions outside Objective 1 (in West Midlands, Ireland and Nord-Pas-de-Calais, for example) pointed out that money from the CAP went mainly to the most profitable enterprises and the most developed areas in the region and because of this may widen disparities both within the region itself and between regions.

The second pillar of the CAP, rural development, is considered to have a more limited effect, because of its smaller size in terms of funding, although its contribution to the diversification of rural areas was recognised. There were widespread positive remarks about the LEADER Initiative as well as about the partnership at regional level which it encouraged.

In a number of rural areas (Andalucía, Kentriki Makedonia), the case studies emphasised, in particular, the multiplier effects of improving the ability of agricultural producers to get produce to urban markets, brought about by a conjunction of the EAGGF-Guidance section and the ERDF.

In general, the positive contribution of integrating environmental considerations into regional development policy was acknowledged, as was, in particular, the requirement for stricter norms. In some regions, however, European norms were regarded as being less restrictive than national norms (especially in Austrian, Swedish and Finnish regions), and as introducing procedures which are both ill-suited to regional circumstances and too bureaucratic.

In nearly all cases, the close relationship between environmental and cohesion policy was emphasised as well as the positive synergy between the two. In almost all Objective 1 regions, environmental policy was viewed as the projects financed by the Structural Funds on the environment rather than the Directives or Community regulations. At the same time, some regions called for greater linkages between environmental policy and the CAP (in Nord-Pas-de-Calais, Sardegna and Algarve).

The situation as regards state aid was the subject of comments mainly outside the Cohesion countries. In general, there was a perception that such aid did not always correspond to the severity of structural problems which exist. In a few cases, it was seen as supporting declining sectors rather than efforts to modernise productive capacity in the regions concerned.

In other cases, there was some confusion because of different types of assistance given to SMEs, including different financial mechanisms. Concern was also raised about the potential 'frontier effect' which state aid could have on neighbouring regions if applied with different intensities.

In some regions, the benefits resulting from finance from the R&D Framework Programmes were recognised (especially in regions in the UK and Germany as well as in Kriti). As in the case of environmental

policy, a significant degree of synergy was identified between R&D and cohesion policy. Most of the case studies, particularly in Objective 1 regions emphasised especially the importance of investment in R&D infrastructure and equipment financed by the Structural Funds. In some cases, however, the Structural Funds contributed up to 10 times as much to regional expenditure in this area as the Framework Programme, which tends to limit the appreciation of the latter at regional level.

Policy on innovation was mentioned in several cases, especially in Objective 2 regions, its contribution to diversification and to the modernisation of the productive base being acknowledged, while regional innovation networks were welcomed[34].

1 A sound consumer protection policy is also important for the proper functioning of markets.
2 Industrial policy in an enlarged Europe, COM(2002) 714 final.
3 Green Paper 'Entrepreneurship in Europe', COM(2003) 27 final. The European Charter for Small Enterprises was endorsed by the European Council in Santa Maria da Feira, Portugal, on 18-19 June 2000, and by the Candidate countries in Maribor, Slovenia, in April 2002. See the third implementation Report, COM(2003) 21 final.
4 Commission recommendation of 6 May 2003, C(2003)1422.
5 Innovation policy: updating the Union's approach in the context of the Lisbon strategy, COM(2003) 112 final.
6 eEurope 2005 Action Plan, COM(2002) 263 final.
7 Investing in research: an action plan for Europe, COM(2003) 226 final.
8 Towards a European Research Area, COM(2000) 6 final.
9 http://www.innovating-regions.org
10 Regions of Knowledge (KnowREG). See also http://www.cordis.lu/era/regions.htm
11 Detailed work programme on the follow-up of the objectives of education and training systems in Europe (OJ C 142 of 14.6.2002).
12 Conclusions of the Barcelona European Council held on 15 and 16 March 2002.
13 "Education & Training 2010": The success of the Lisbon Strategy hinges on urgent reforms. (Draft joint interim report on the implementation of the detailed work programme on the follow-up of the objectives of education and training systems in Europe.) COM(2003) 685 final.
14 Council Conclusions of 25 November 2003 on the 'Development of human capital for social cohesion and competitiveness in the knowledge society' (OJ C 295 of 5 December 2003).
15 Decision 1600/2002/EC, OJ L 242 of 10/9/2002.
16 Such as soil protection; protection and conservation of the marine environment; sustainable use of pesticides; air pollution; urban environment; sustainable use and management of resources; waste recycling (Decision 1600/2002/EC)
17 WHO, World Health Report 2002, Geneva, 2002.
18 European Commission, The Structural Funds and their co-ordination with the Cohesion Fund: guidelines for programmes in the period 2000-06, EUROP, Luxembourg 1999 and Further Indicative Guidelines for the Candidate Countries, COM(2003) 110 final.
19 SEC(2003) 106.
20 Economic Reform: Report on the functioning of Community product and capital markets, COM(2002) 743 final ("Cardiff report")
21 The black-out in Italy in September, 2003, for example, which occurred when consumption was low, was due not to any lack of capacity in the system nor to an isolated event but to a weakness in the chain of decision-making and inadequate coordination of the European network.
22 Decision 1254/96/EC.
23 The Multi-annual Programme 'Intelligent Energy for Europe' was adopted by the Council in November 2002, allocating EUR 190 million over four years for promoting the use of renewable energy sources and achieving a reduction in Greenhouse gases, as agreed at Kyoto in 1997.
24 Decision 1336/97/EC.
25 This represents less than a quarter of total aids, excluding agriculture, fisheries and transport for which no division of the amounts spent by region is available.
26 Under Article 87, paragraph 3 of the Treaty, certain areas have a derogation from the principle that state aid is incompatible with the common market. Point 'a' of the paragraph states that aid aimed at encouraging economic development in regions in which the standard of living is unusually low or there is a serious level of under-employment can be considered compatible with the common market.
27 In 2000, the status of the Lisboa e Vale do Tejo region changed from 'a' to 'c'. Since the data available at present do not enable the two periods to be distinguished, all the aid for this region is included as 'a'. For Cohesion countries, certain types of aid are not destined for a precise region but the whole country.
28 Under Article 87, paragraph 3, point c states that aid intended to support the development of particular activities or economic region can be considered to be compatible with the common market so long as it does not distort trade conditions to an extent which is contrary to the common interest.
29 Data on state aid are not available for regions below NUTS 2 level, which is not a problem for measuring assistance to type 'a' regions which are all NUTS 1 or NUTS 2 regions. For type 'c' regions, however, it is often the case that only part of a NUTS 2 region is eligible. There are therefore regions which are fully assisted, like Berlin, or partly assisted, like Bayern.

30 OJ L 337, of 13.2.2002.

31 Sources: Europol annual reports, Transparency International Global corruption reports, World Bank reports.

32 Towards an urban agenda in the European Union, COM(1997) 197 final.

33 The regions included in the study were Hainault in Belgium, Oberbayern, Saarland and Magdburg in Germany, Kentriki Makedonia and Kriti in Greece, Asturias, Cataluña and Andalucía in Spain, Bretagne, Nord–Pas-de-Calais and Limousin in France, Border, Midland and Western and Southern and eastern in Ireland, Campania, Toscana and Sardegna in Italy, Flevoland in the Netherlands, Steiermark in Austria, Algarve and Açores in Portugal, Itä-Suomi and Estelä-Suomi in Finland, Norra Mellansverige and Övre Norrland in Sweden, West Midlands, Highlands & Islands and Northern Ireland in the UK.

34 For further reflections on this general issue, see European Economic and Social Committee, Exploratory Opinion on `The contribution of other Community policies to economic and social cohesion´, September 2003, which covered the CAP, economic policy in the form of the Growth and Stability pact, and policy on competition, the internal market, transport, education and vocational training.

Part 4 — Impact and added value of structural policies

Table of contents

Introduction

This part of the report reviews the results and the added value of the interventions under EU cohesion policy for the period 1994–1999. It also takes account of the main changes introduced in the period 2000–2006 as well as preliminary results on the implementation of programmes during this period.

The analysis draws mainly on *ex post* evaluations carried out for almost all types of intervention for the period 1994–1999. Significant progress has been achieved in terms of quantifying the impact of intervention, especially in large Objective 1 regions, where the overall effects can be measured by using macroeconomic models. Despite the difficulties in identifying the impact of policy outside Objective 1 regions, recent evaluation studies provide quantitative evidence of the positive effects of EU support, in terms, for example, of jobs saved, created or redistributed. Nevertheless, as experience demonstrates, there are still a number of difficulties in quantifying the consequences of intervention as a result of a lack of systematic data collection on the part of the monitoring systems.

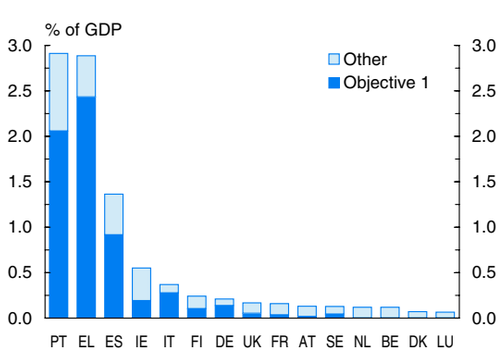
Most of the effects of cohesion policy, however, cannot readily be expressed in quantitative terms. Beyond the net impact of policy on GDP or employment, its added value arises from other aspects, like the contribution made to regional development by factors such as strategic planning, integrated development policies, partnership, evaluation and the exchange of experience, know-how and good practice between regions. These are also reviewed here, drawing on the evidence from evaluation studies as well as on Commission views as to how the Structural Funds are currently implemented.

It should be emphasised at the outset that the effectiveness of intervention also depends on favourable conditions being achieved on the ground, in particular on:

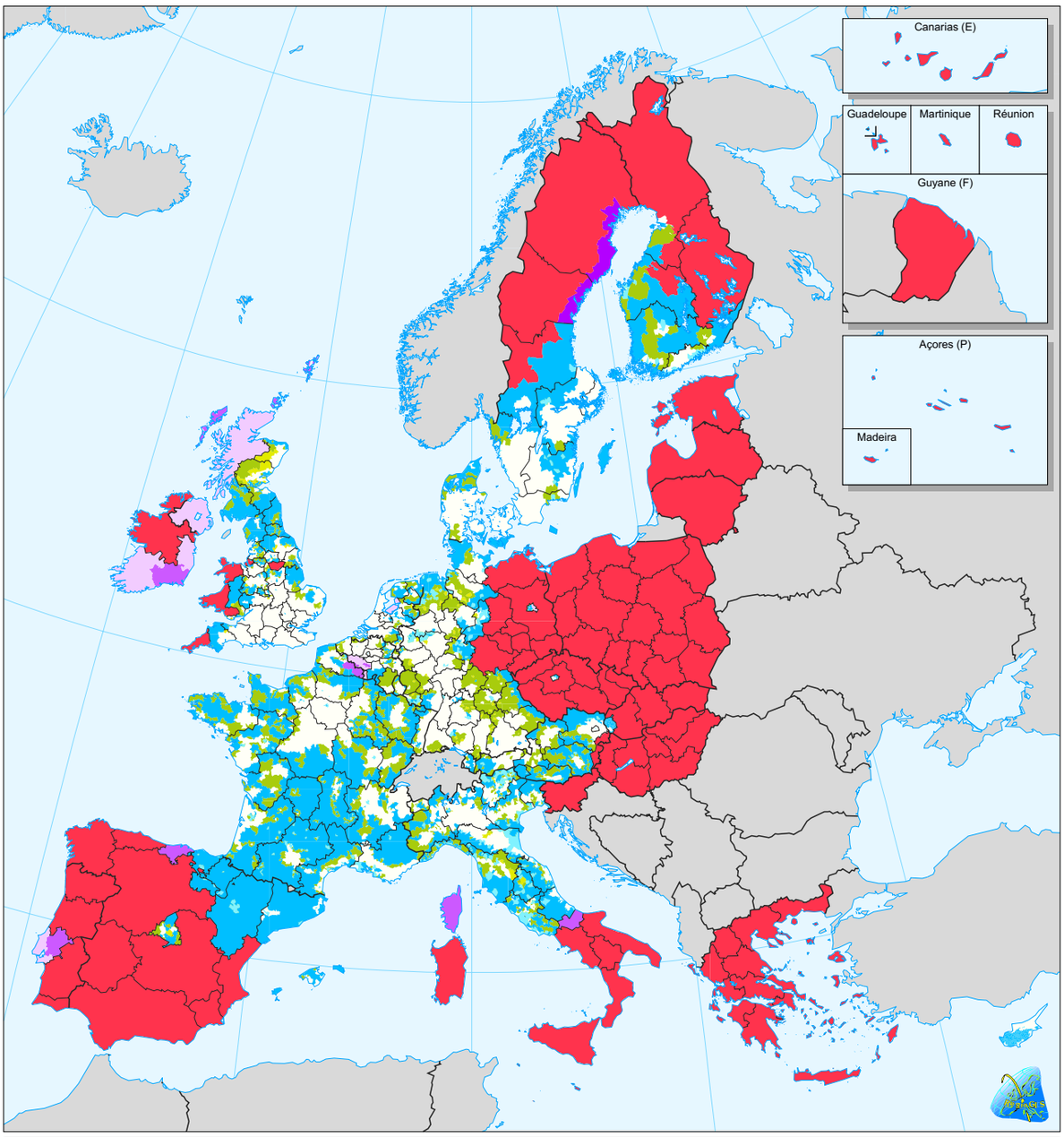
- a sound and stable economic framework;
- a judicious choice of strategic priorities (certain programmes, such as transport networks or investment in human capital make a stronger contribution than others);
- the rate of financial absorption, which depends on administrative and institutional capacity;
- the quality of projects, implying the need for effective selection and implementation systems.

Six major aspects of Community cohesion policy are examined below: first, the contribution of structural policies to supporting growth in lagging regions and to strengthening their performance while helping to bring about closer economic and social integration; secondly, the effects of these policies outside of Objective 1 regions; thirdly, the specific role of the European Social Fund (ESF) in promoting employment, education and training; fourthly, the role of structural polices in terms of encouraging cooperation and networking, not least at the local level; fifthly, the methods used to implement the Structural Funds and their contribution to modernising the management of government policies; and finally, the achievements of pre-accession support in the new Member States and the first lessons which can be drawn for the 2004–2006 programming period — Map 4.1.

4.1 Structural Funds (all objectives) by country, 2000-2006



Source: DG REGIO



4.1 Structural Funds, 2004-2006: areas eligible under Objectives 1 and 2

Objective 1

- Objective 1
- Phasing-out (till 31/12/2005)
- Phasing-out (till 31/12/2006)
- Special programme

Objective 2

- Objective 2
- Objective 2 (partly)
- Phasing-out (till 31/12/2005)
- Phasing-out (partly) (till 31/12/2005)

Source: DG REGIO

0 100 500 km

Structural interventions in Objective 1 regions: growth, convergence and integration

The scale of transfers and their mobilisation

While the overall size of the Structural Funds is modest in relation to EU GDP (under 0.5%), resources are concentrated on assisting the least prosperous regions with the lowest GDP per head. In the 2000–2006 period, almost three-quarters of the Funds, therefore, go to regions which are home to a quarter of the EU population.

Over the period 2000–2006, transfers to Objective 1 regions of the EU15 are equivalent to EUR 127.5 billion (or EUR 18.2 billion a year), amounting to 0.9 % of GDP in Spain, 2.1% in Portugal and 2.4 % in Greece. The average amount of aid per head to lagging regions is the same in this period as in 1999, the last year of the previous programming period (Graph 4.1 and Table A4.1).

These transfers have the effect of enabling the least wealthy Member States to achieve higher levels of investment in human and physical capital in lagging regions than would otherwise be the case, so helping to improve their long-term competitiveness. In 2000 to 2006, transfers are estimated to amount to around 9% of total investment in Portugal, 8% in Greece, 7% in the Italian Mezzogiorno, 4% in the German new Länder and 3% in Spain.

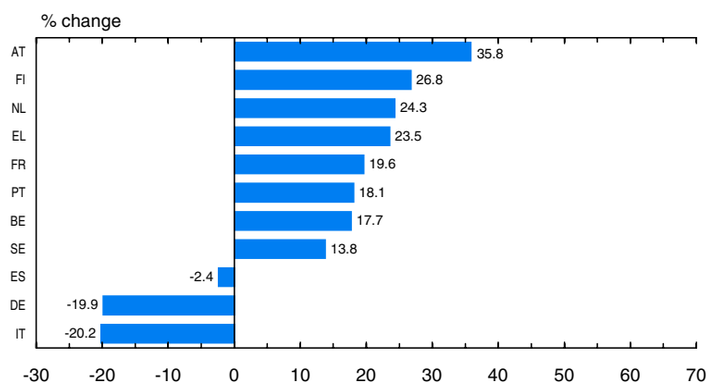
Additionality: measuring overall public expenditure

Despite the efforts made to consolidate their public finances at the end of the 1990s in preparation for EMU, Member States continued on the whole to respect the principle of additionality, under which they are obliged to maintain public, or equivalent, expenditure on structural policies in the regions concerned, taken together, at the same level as the average over the preceding programming period — excluding, of course, the Structural Fund contribution (Graph 4.2).

In the countries wholly, or mostly, eligible for support under Objective 1, there was a marked increase in public investment — of 66% in Ireland, 24% in Greece and 18% in Portugal. In other Objective 1 or Objective 6 regions, the increase ranged from 36% in Austria to 14% in Sweden[1].

In three cases, Germany, Spain and Italy, expenditure over the years 1994 to 1999 was below the level in the previous period. In Germany and Spain, however, where public expenditure declined by 20% and 2%, respectively, between the two periods, the reduction did not infringe the principle of additionality, since the level was exceptionally high in the period before.

4.2 Additionality – Change in average annual national expenditure on Structural Fund programmes, 1989-93 to 1994-99



SE: average 1991-92; DE: average 1991-93; AT, FI: average 1993-94
Source: DG REGIO

The leverage effect as a means of increasing funding for development

The requirement for Community grants to be co-financed from national sources, which examination shows to be largely respected, also increases the finance available for investment. Although this may not

Leverage effects of private-public partnerships

Public-private partnerships (PPPs) may be an appropriate method of financing investment when there is significant scope for involving the private sector so as to provide a more efficient and cost-effective service. Although PPPs are well developed in a number of countries, in particular in the UK and France, experience to date has been limited partly due to restrictions under the current regulatory framework. If projects offer the prospect of an acceptable rate of return, there is no need for public intervention at all. Indeed, in some cases the provision of government grants to a PPP scheme might reduce the cost of capital to the private sector, resulting in over-investment.

In considering whether to undertake a particular project through a PPP arrangement, due consideration must be given to the potential costs in contracting out the provision of goods and services. In the case of major physical infrastructure, where future demand is uncertain, there may be a high cost to a long-term contract, unless it is flexible. If, for example, forecasts of future use are too low, then inappropriate contracts could lead the private operator to under-invest in additional capacity in the future.

In current programmes co-financed by the Structural Funds, PPP can take several forms.

1. In road and water transport, there is a growing acceptance of PPP as an efficient means of financing construction. In projects like the Vasco de Gama Bridge in Portugal or the Drogheda motorway in Ireland, the private sector is generally responsible for design, construction, operation and financing, while the cost of construction is recovered over time through user charges. The role of the public sector is to oversee the project while concluding an appropriate contractual arrangement.

2. PPP arrangements can also be applied to contracts for the provision of specific services, the government remunerating a private contractor directly for these with no charges being levied on end users. This concept is increasingly used for R&D and technology transfer between universities and businesses. The Octopus project in the Oulou region, an Objective 2 programme in the north of Finland, for example, created a PPP in order to stimulate innovation and business start-ups. The two-year project (2002–2004) has established a cooperation network under the direction of the city of Oulou, which is a centre for mobile telephone applications, with many high-tech companies, telecom operators and education and research institutes.

3. PPP arrangements may, in addition, be applied to situations where public sector involvement can be justified on grounds of achieving broader policy objectives. PPP in these cases may be a means not only of securing finance but also greater efficiency, by, for example, speeding up implementation. In the UK, for instance, access to new sources of capital has allowed promoters to carry out projects more quickly without being constrained by government budget cycles. A case in point is the Merseyside Special Investment Fund, an Objective 1 programme established in 1995 providing equity capital, mezzanine finance and small loans to SMEs in the region.

PPP arrangements appear to be particularly attractive for the accession countries in view of their co-financing requirements, budget constraints, the need for efficient public services, growing market stability and the process of privatisation. The EIB and EBRD have both been involved in such partnerships in the past to provide loans to the private sector. PPP, however, works only if there is an explicit policy commitment by national government to involve the private sector in public sector projects. A clear framework is needed for the application of PPP in different policy areas, since specific arrangements need to vary from case to case depending, for example, on how far costs can be recouped through user charges and the extent of social objectives. Any PPP framework applied in the context of the Structural Funds should include an obligation, for all projects above a certain scale, to evaluate the possibility of using some kind of PPP arrangement. The EIB and the EIF could provide a valuable contribution in this regard.

be additional in the same way as Community funding, insofar as the money in question is likely to have been spent in this area anyway, the Structural Funds contributed to shifting the investment to those areas where expenditure can have the greatest impact and added value. For each Euro contributed by Structural Funds in Objective 1 regions in the period 1994–1999, the leverage effect on national public expenditure was on average 0.6 Euro ranging from 2.5 Euro in the Netherlands and 0.4 Euro in Germany.

In addition, Structural Fund interventions in some cases secured significant private sector investment, though initial expectations about the scale of this were not always realised in Objective 1 regions. In the period 1994–1999, the leverage effects were strongest in Austria, Germany, the Netherlands and Belgium where for each Euro contributed by Structural Funds the private expenditure varies between 3.8 and 1.2 Euro. In the Cohesion countries, as well as in France and the UK, the leverage effects were less significant. (Table A4.2).

These differences also reflect the nature of the interventions, which in the Cohesion countries were directed more towards infrastructure and human resources, which attract smaller private contributions than those aimed at supporting business development. On average, private investment amounted to 18% of total expenditure in Objective 1 regions as opposed to some 40% in Objective 2 areas, largely reflecting the greater focus on business development in the latter (support for business services, finance for SME investment and so on).

Expenditure planned for the period 2000–2006 indicates that the leverage effect on public investment is similar, in terms of the relative scale in different countries, as in the preceding period, though it seems to be smaller in respect of private investment.

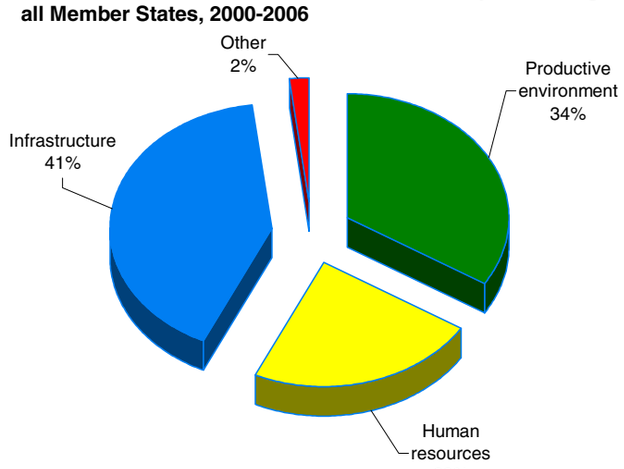
Complementarity between Structural Funds and EIB loans

The European Investment Bank (EIB) has more than doubled its lending for regional development over the past 15 years[2]. Over the period 2000–2002, lending for this purpose averaged around EUR 20 billion a year, while lending in the accession countries amounted to some EUR 3 billion a year. These two together accounted for around two-thirds of the Bank's total lending. Over 50% of the lending to assisted areas in the EU over this period went to Objective 1 regions, including those receiving transitional support (Table A4.3).

Some 35% of individual loans went to transport, the main area funded in Objective 1 regions, while around 16% went to private businesses in industry, services and agriculture, the remainder being divided between energy, telecommunications, the environment and health and education. Though a relatively small amount went to support investment in human capital, through loans to healt careh and education, the amount involved increased significantly between 2000 and 2002, so helping to tackle disparities in the provision of education and training in assisted areas.

The main recipient sectors in accession countries are transport, environment and energy, which

4.3 Breakdown of Structural Fund allocation in Objective 1 regions: all Member States, 2000-2006



Source: DG REGIO

together accounted for 90% of individual lending over the period 2000–2002, though support for education and training showed the largest rise (an increase of three times in 2002 compared with 2001). In addition, some 14% of lending goes through financial intermediaries to support SMEs and local infrastructure projects.

In recent years, several innovative operations have been aimed at improving the effectiveness of EIB lending in support of cohesion through, for example, direct co-financing of individual projects. The EIB has also been involved in supporting the Lisbon strategy, such as through loans for investment in education and health care and in high-tech sectors, particularly in the accession countries, so helping to tackle regional disparities in skills and innovative capacity, as well as to improve the attractiveness of regions as places for businesses to invest.

The priorities financed: contribution to the pursuit of EU objectives

As indicated in Part 1 of this report, disparities in many of the main structural factors affecting the long-term competitiveness of regions have been reduced over the past 10–15 years. The gaps in infrastructure endowment targeted by the Structural Funds have narrowed significantly, while education attainment levels have increased throughout the EU but most markedly in lagging regions, so increasing human capital, and

Improving accessibility in Spain

The main emphasis of cohesion policies in Spain during the period 1994–1999 was on infrastructure, regarded as the main bottleneck to regional development. This was particularly the case for transport, which absorbed about 40% of structural assistance and which resulted in considerable improvement in communications. The Structural Funds (including the Cohesion Fund) co-financed around 2400 kms of motorways and 3400 kms of primary roads constructed in Objective 1 regions during this period. In the current 2000–2006 period, motorways are being extended by some 2500 kms and other roads by around 700 kms. Accessibility will be improved significantly as a result, with reductions in average travel time of around 20% and in accidents by some 40% by 2006.

Investment in the rail network was aimed mainly at improving existing lines rather than extending them. Increases in electrification and the construction of double track lines between 1989 and 1999 affected over a third of the network. As a consequence of these improvements, the number of passengers has risen continuously since 1989. In the current programming period, the high speed rail network will be further extended from 623 kms of track to 1140 kms by 2006, while around EUR 6 billion from the Cohesion Fund will be used to upgrade the Madrid-Barcelona-French border line.

Leipzig: Enterprises and science under one roof

In May 2003 the city of Leipzig opened a unique biotechnology centre, “Biocity”, providing 20,000 square meters of modern facilities to researchers from the University of Leipzig and business enterprises. The ERDF contributed EUR 17 million of the total investment cost of EUR 50 million.

Six professors from the University of Leipzig with links to biotechnology moved to the new complex. Biocity has been an immediate success, with 60% of available space taken soon after its opening: in December 2003. The centre provides extended consulting and coaching services to new businesses, including in such areas as finance and patent rights. Four of Leipzig’s well-established biotech enterprises have located in the centre in order to be close to the research being undertaken and potential cooperation partners.

The Leipzig project forms part of a policy in Saxony of supporting clusters in biotechnology, a “Bio-innovation centre” to be opened in Spring 2004 in Dresden being the next step. The longer-term plan is to create a biotech development axis encompassing the cities of Dresden, Leipzig, Halle and Jena.

improvements have also been made to the environment (Graph 4.3 and Table A4.4).

Improving accessibility

The Structural Funds have supported the development of trans-European transport networks (TEN-T) in Objective 1 regions and the Cohesion countries. Over the present period, 2000–2006, some EUR 1.3 billion a year from the Cohesion Fund and EUR 850 million to 1.4 billion a year from the ERDF will be used for this purpose out of total finance for transport from the Funds of around EUR 4.1 billion a year, around a third of which is intended for motorway or road building (Table A4.5).

Access to regions has been improved through the construction or upgrading of at least 4,100 km of motorway and 32,000 km of other roads. For example, the Structural Funds contributed to the construction of over 500 km of motorway in Greece during the 1990s, while in Spain, almost 400 km of track for high-speed trains are already in service, linking Seville with Madrid, and another 1,100 km or so are under construction, so reducing travel times substantially and making the peripheral regions concerned more accessible.

The deployment of the Structural Funds in relation to the TEN-T is based on a long-term approach integrating within a coherent strategy both for transport and regional development as a whole. This makes it possible for it to be coordinated with other measures and with the development of secondary networks. It also enables emphasis to put on both inter-connectivity between modes of transport and alternative modes to road in the interests of sustainable development.

Community added value from support of transport could potentially be higher if priorities were better coordinated and more funding were given to INTERREG-type programmes, which apply the principle of planning across border areas, so avoiding a break in trans-European networks when they reach a national frontier. The Somport road tunnel through the Pyrenees, which was opened at the beginning of 2003, is an example of such a lack of cross-border planning, since the new motorway, financed by the Cohesion Fund on the Spanish side of the border, turns into a old national road on the French side.

Reinforcing the European research area

Over the past decade, structural policies have contributed much to increasing research capacity, especially in Objective 1 regions. For the 2000–2006 period, about EUR 1.2 billion a year has been allocated to finance R&D and innovation programmes.

The added value of the Structural Funds has been to help develop new research capacity in lagging regions so increasing their prospects of sustaining growth. In some cases, however, there appears to have been over-investment in research centres in relation to both needs and potential, so leading to their under-utilisation. Nevertheless, at the same time,

Online educational community in Greece

The EU-funded Greek schools network (GSN) project is designed to exploit the latest information and communication technologies and e-learning applications to establish a new educational network. Endowed with EUR 35 million (75% of this provided by the Structural Funds), the network includes primary and secondary schools, as well as the administrative offices of the Ministry of Education, and comprises over 8,000 connections in total.

The project has 4 different stages. First, schools obtain computers and local network hardware (the 'school laboratories'). Secondly, these laboratories are connected to a communications network. Thirdly, the GSN provides telematic services for education, collaboration and communication to its users. Fourthly, GSN users have access to educational content, provided through a portal specifically designed for the project.

there are evident examples of success, especially in Ireland and the Nordic countries.

Since it is recognised that investing in infrastructure and equipment is not sufficient in itself to develop the knowledge-based economy, structural policies have also helped to initiate regional strategies for R&D and innovation geared towards meeting local needs and local opportunities for development.

The Structural Funds as a means of developing the Information Society

Overall some EUR 700 million a year of finance from the Structural Funds, just under 4% of the total, is allocated to developing the Information Society in Objective 1 regions, reflecting the priority given to this by national and regional authorities and contributing to the pursuit of the Lisbon objectives and the eEurope Initiative.

The scale of expenditure from the Funds in this area is determined by such factors as the degree of maturity of the ICT market, population density, the availability of skills to use the technology and the capacity to plan such development. The top 20 regions, ranked according to ICT expenditure per head, include 6 Greek regions and two Spanish; 7 are islands or mainly islands and a large proportion are Objective 1 regions, which see ICT as strategically important to their development.

In terms of policy formulation, regional priorities in this area are broadly consistent with those set out in the eEurope 2002 Action Plan. In Objective 1 regions, however, there tends to be more emphasis on developing ICT skills and government online services.

Fostering employment and skills through investment in human capital

Some EUR 9 billion a year is allocated to the development of human capital and to fostering employment in the 2000–2006 programming period through the European Social Fund (ESF). Of this, just over half (EUR 4.5 billion a year) goes to Objective 1 regions, with Spain accounting for some 28%, the German new Länder for 19% and Greece, Portugal and Italy for 12–13% each. The measures funded consist predominantly of active labour market programmes aimed at increasing the employability of disadvantaged groups, young people entering the labour market for the first time and the long-term unemployed, and at providing education and training for both the unemployed and those at work, especially those vulnerable to job loss working in SMEs. The measures also include support for improving national education and training systems and public employment services.

Over the 1994–1999 period, when the overall amount going to Objective 1 regions totalled some EUR 3.1 billion a year, the ESF provided substantial support for

Wind farms on the Portuguese coast

The idea of building a wind farm in Portugal occurred in 1990 to a group of Danish businessmen, one of whom had visited Melides. The coastal area, exposed to winds from the west, seemed to be a good location for such a project. A seven hectare site was chosen on Monte Chaos, a hill some 100 metres high situated 3 km from the sea at Sines. Work began in April 1991 and six months later, the first wind turbines were completed.

Today, the farm consists of 12 Danish-made Wind World W-2800 turbines, which will last for at least 20 years. Each turbine is 31 metres high and has a rotation diameter of 28 metres. The turbines are distributed in three groups of four, interconnected by a fibre optic system, which makes it possible to control the turbines remotely.

The farm generates a current of 380 volts collected by three transformer stations where the voltage is converted into 15,000 volts and fed into the national grid. The maximum power of each generator is 150 kWh, which is attained when the wind speed reaches 40 km per hour. The annual output is around 2.5 million kWh, which is equivalent to the energy consumed by domestic users in the town of Sines.

Econometric evidence on regional convergence

Econometric analysis confirms that there has been some convergence in GDP per head across the Union. Taking the real growth in GDP per head for 197 (NUTS 2) regions between 1980 and 2001 and dividing this into three periods (1980–88, 1988–94 and 1994–2001), a significant tendency is evident for growth to be inversely related to initial GDP per head. This tendency, known technically as beta convergence, is evident for each period, signifying that regions with the lowest levels of GDP per head in the base year experienced, on average, the highest growth in GDP per head. Moreover, the pace of convergence defined in this way (as indicated by the value of the beta coefficient) increased in each successive period as Structural Fund support for Objective 1 regions was first introduced (in 1988) and then increased (in 1994).

Moreover, within Objective 1 regions, those with the lowest initial levels of GDP per head tended to grow the fastest in both the 1988–1994 and 1994–2001 periods in particular (again as indicated by the beta coefficient). Beta convergence, therefore, occurred both within the Objective 1 group and between these regions and the rest of the Union. (Beta convergence within the Objective 1 group was particularly strong in the 1988–94 period, partly reflecting high growth rates in the new German Länder.)

Analysis of this period also indicates that regional disparities in GDP per head narrowed between 1980 and 2001 (as measured by the variance of the logarithm of GDP per head across regions), so that what is known technically as sigma-convergence also occurred over this period. The extent of convergence in this sense, however, was relatively small between 1994 and 2001. (It should be noted that beta convergence does not necessarily imply sigma convergence since it is possible for the regions with the lowest GDP per head to grow faster than average without overall regional disparities narrowing.)

Regional convergence

	No. of regions	GDP per head (% growth rate)	Beta convergence rate per year (%)	R-Squared
1980-88				
All EU15 regions	197	2.0	0.5	0.94
Objective 1 regions	55	1.9	0.4	0.87
Other regions	142	2.0	2.1	0.92
1988-94				
All EU15 regions	197	1.3	0.7	0.97
Objective 1 regions	55	1.4	3.1	0.94
Other regions	142	1.2	0.8	0.95
1994-2001				
All EU15 regions	197	2.3	0.9	0.97
Objective 1 regions	55	2.6	1.6	0.92
Other regions	142	2.1	0.0	0.96

Source: DG REGIO

active labour market measures, financing around 40–50% of all such measures in Spain and Portugal in 1998, for example. It also helped finance the restructuring and expansion of public employment services in Greece, Ireland and Portugal. In addition, in Portugal, it contributed to raising the proportion of students in tertiary education from 26% of the total to 34% over the programming period and, in Spain, to encouraging a large number of firms to provide continuing training for the first time.

Evaluation studies carried out on the present programming period estimate that structural interventions in Objective 1 regions are likely to lead to the creation of around 700,000 jobs, adding almost 4% to employment in Portugal (187,000 jobs) and 2.5% in Greece (100,000 jobs). The effect on employment is also estimated to be significant in the new German Länder, the south of Italy and Spain (adding 1–2% in each case).

Contributing to sustainable development

Environmental sustainability is critical to maintaining regional development over the long-term. The current generation of Structural Fund programmes was adopted before the present EU sustainable development strategy was launched. Nevertheless, structural interventions include the environment as a horizontal priority and take explicit account of environmental considerations while pursuing economic and social cohesion objectives. According to a recent evaluation, the effectiveness of intervention could in many cases be increased by making potential trade-offs between these three objectives more explicit, as well as by seeking better integration with sectoral and national policies.

Improving the environment and protecting it against further damage are integral objectives of structural interventions. A large part of the Structural Funds has, therefore, been allocated to financing investment in environmental infrastructure, notably for waste management and waste water disposal, mainly in the south of the EU.

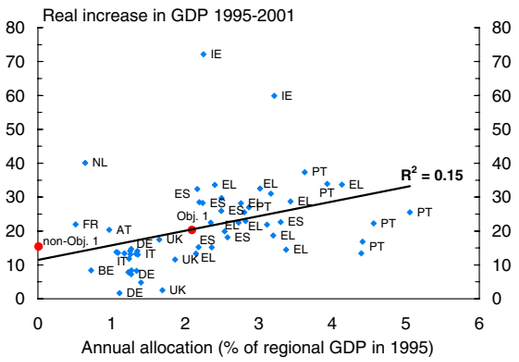
Growth and real convergence between regions …

As indicated in Part 1, there has been a significant growth since 1989 in GDP per head in Objective 1 regions, taken together, in relation to the EU15 average, while both employment and productivity have risen as compared to the increases elsewhere. These favourable developments are supported by recent empirical studies which have analysed the extent of regional convergence which has occurred[3] (see Box on Econometric evidence).

The main conclusion which can be drawn from econometric analysis is that there has been significant catching up of Objective 1 regions in terms of GDP per head as well as a narrowing of disparities among them. At the same time, there has been a consistent reduction in the productivity gap between Objective 1 regions and the rest of the EU15 over the past 20 years, especially in the most disadvantaged regions in the Cohesion countries, suggesting that the catch-up in GDP per head is soundly based, offering the prospect of continuing convergence in future years. This reduction in the productivity gap was most marked in the growth years of the latter part of the 1980s, in part because of new entrants to the EU benefiting from the removal of trade barriers.

Analysis also indicates that there is some relationship between the amount of structural aid provided and the real growth of GDP. Those regions which received the most aid per person, therefore, tended to grow by more and vice versa. Many of these regions were in Greece and Portugal. At the same time, GDP in a number of Greek and Portuguese regions grew by less than implied by the amount of structural aid, given the average relationship. This was also the case in most Objective 1 regions in Germany and Italy, where, as noted in Part 1, growth seems to have been depressed by low growth in the rest of the country. On the other hand, in most Spanish regions, growth was higher than implied by the amount of aid received, reflecting perhaps the influence of a buoyant national economy (Graph 4.4).

4.4 Structural Fund allocation and growth of GDP by Objective 1 region, 1995-2001



Source: Eurostat, Regional accounts and DG REGIO calculations

… and Member States

In all four Cohesion countries, as noted in Part 1, growth of GDP was higher than that in the rest of the EU over the period 1991 to 2002. Although the difference was relatively small in the case of Portugal (2.2% a year as against an EU15 average of 2%), it was just over ½% a year higher in both Greece and Spain, while in Ireland, it was substantially higher (an average of around 4½% a year higher).

Simulations[4] indicate that structural interventions[5] have boosted growth both through increasing demand and through strengthening the supply side of the economy (through improving infrastructure and human capital) and so have contributed to convergence. As a result of such interventions, it is estimated that GDP in real terms in 1999 was some 2.2% higher in Greece than it otherwise would have been, while in Spain, the figure was 1.4%, in Ireland, 2.8% and in Portugal, 4.7%. These differences reflect to a large extent the high degree of openness of the Irish and Portuguese economies in relation to Greece and Spain, especially the latter because of the larger size of its internal market (Tables A4.6 and A4.7).

Growth of GDP was linked to a significant extent to manufacturing, where the effect of intervention was more pronounced in Portugal than in the other countries, leading to 'knock-on' effects on market services, and where inflows of foreign direct investment led to a radical transformation of the sector, much as in Ireland at the end of the 1980s. Intervention was also associated with a significant increase in investment — which was estimated to be 24% higher in Portugal and 18% in Greece in 1999 as a result — taking the form particularly of an increase in infrastructure and human capital.

GDP growth is also linked to growth in labour productivity, disparities in which tended to narrow over the period. In Portugal, where manufacturing is still concentrated in highly labour-intensive industries, the gain in productivity from structural intervention is estimated to have been twice the increase in employment. In Spain, increases in labour productivity (2%) and employment (1.5%) contributed much the same to growth of manufacturing output.

In the German new Länder, the effect of Structural Fund intervention on GDP is estimated to have been significant (raising the level by around 4% in 1999), partly because of the more depressed starting conditions. Growth in manufacturing in the first three years following unification was associated, as in Portugal, with strong growth in employment, followed later by gains in productivity from the introduction of new technologies embodied in the increased investment financed in part by the Structural Funds.

In Northern Ireland, estimates suggest that the effect of structural intervention was modest, raising the level of GDP by just over 1% in 1999. The effects are most visible in market services (especially in business services and vocational training), while there seems to have been hardly any impact on manufacturing.

Is there a trade-off between national and regional convergence?

It is often argued that internal disparities, in terms of differences in GDP per head between regions, tend to widen initially, in the first stages of convergence, as growth at the national level increases to a relatively high level. On this view, growth of the national

economy is regarded as being boosted by the effect of economic activity being concentrated in a few areas, especially large cities and conurbations. Accordingly, the first stages of an economy catching up tend to be characterised by a conflict between national and regional convergence.

This potential conflict is relevant not only for the Cohesion countries but also for the development strategy which accession countries in central Europe should follow. With the exception of Bulgaria, the regional dispersion of GDP per head is wider in all the larger accession countries than in the Cohesion countries. Moreover, it has increased significantly since the mid-1990s, principally because of the high rate of growth of the largest cities, the main growth poles. By contrast, as noted in Part 1, regional disparities in the Cohesion countries — the major recipients of structural assistance — have not changed much, despite national growth being higher than the EU average. The one exception is Ireland, where economic activity has become even more strongly centred on Dublin.

The possibility of there being a 'trade-off' between national convergence and regional convergence suggests that accession countries face a choice in the short-term between higher national growth of GDP per head and reducing regional disparities. In some cases, structural aid seems to have favoured national convergence (Ireland), while in others, it has tended to counteract the effects of polarisation of economic activity (Spain). Experience indicates, however, that the extent to which a trade-off of this kind exists depends in part on the spatial distribution of economic activity and of settlements across the country in question.

The Structural Funds as a means for economic integration

European economies are becoming more closely integrated as reflected in growing trade and investment flows between them. This has been actively promoted by EU policies, most especially in relation to the completion of the internal market, the introduction of a common currency and prospective enlargement. Closer integration has led, with the support of cohesion policies — which have stimulated trade flows and influenced the location of economic activity — to a narrowing of disparities between economies.

Trade of the Cohesion countries with the rest of the EU has more than doubled over the past decade. Some of this increase reflects the gains to other countries from structural aid to less favoured regions. Estimates from input-output tables, therefore, suggest that around a quarter of such expenditure returns to the rest of the EU in the form of increased exports, on machinery and equipment in particular, as GDP and investment grow. This 'leakage' is particularly large for Greece (42% of structural aid) and Portugal (35%) (Table A4.8).

A substantial proportion of the Structural Funds goes on transport infrastructure which both affects the location of industry, by increasing the attractiveness of the regions concerned, and boosts economic activity there by increasing earnings and real incomes. Simulations of the effects of a range of transport projects financed by the Cohesion Fund suggest that income gains can be significant (the combined effect of the Egnathia and Pathe motorway projects, for example, added an estimated 9% or so to income in East Macedonia). Taking account of the wider effects of structural intervention in reducing the costs of production in the region concerned, not only through reduced travel time but also through higher productivity resulting from a strengthening of the supply side of the economy, further increases the effect on GDP (which is estimated to be 3% higher in Andalucía and around 2% higher in the Mezzogiorno in 2006 as a result of EU co-financed programmes).

According to a recent study, Structural Fund interventions can also affect the location of R&D intensive activities, encouraging them to set up in assisted regions, so helping to bring about a more equitable distribution of growth opportunities across the EU.

Regeneration in Wolverhampton, UK

Efforts have been made in Wolverhampton for some years to generate new jobs to replace those lost in steel and other industries. The EU has played a major role in facilitating change. In the early 1990s, the EU encouraged a more strategic approach to regeneration rather than simply funding individual infrastructure projects, as was the case in the 1980s. Following an extensive audit and consultation with the local community and businesses, a detailed urban regeneration programme was drawn up. EU funding was targeted on two main areas of the town:

- the Cultural Quarter: the Chubb building, where locks and safes were once manufactured, now houses a number of multimedia SMEs and is the focal point of the quarter. Schemes to improve the Art Gallery, the Grand Theatre and the University's Arena Theatre, combined with training and business support initiatives, are creating economic opportunities in cultural and media activities;

- the All Saints area: the Urban Village project is a community-based approach to improving living conditions in one of the most deprived areas in the region, by setting up community businesses, supporting the most disadvantaged groups and fostering cultural and media businesses.

Between 1993 and 1998, the regeneration programme generated 1500 jobs and led to 75 SMEs being established, including 32 specialising in cultural activities.

Intervention in Objective 2 regions: restructuring and job creation

In addition to assisting Objective 1 regions, the Structural Funds also help to support economic development in other parts of the EU suffering from structural problems rather than lagging development. The main effects of these over the period 1994–1999, as revealed by recent evaluation studies, are examined below.

During the period 1994–1999, a total of 82 regions with 62 million inhabitants (17% of EU15 population) received Objective 2 assistance, aimed at helping areas affected by industrial decline, down from the 73 million living in the areas assisted in the previous period. The amount of expenditure was increased from EUR 1.2 billion a year to EUR 2.8 billion a year, 11.5% of the Structural Funds total, so raising the aid per person in these areas from EUR 16 a year to EUR 44. In the 2000–2006 period, this amount has been set at EUR 3.2 billion a year (at 1999 prices), to deal with rural as well as industrial areas in decline (covered by Objective 5b in the 1994–1999 period), implying a slightly smaller average amount of aid per person (EUR 41).

In the 1994–1999 period, assistance was concentrated in a large number of small areas in 12 Member States, with the UK receiving almost one third of the total and France almost a quarter, the two countries together accounting for just under 60% of the total number living in Objective 2 regions. Spain and Germany between them received another quarter of the total and 8 other countries the remaining 20%. EU Structural Fund contributions made up almost a third of total eligible expenditure on Objective 2 programmes, national government sources providing about the same amount and the private sector the rest.

In terms of the types of project supported, expenditure on infrastructure amounted to 27% of the total in the 1994–1999 period (down from 36% in the previous period). This went, in particular, on the reconversion of old industrial sites and the construction of new buildings. A further 25% went on support for business, more than double the amount in the preceding period, and, in particular, on strategic measures such as facilitating access of SMEs to advanced business services and consultancy, promoting financial engineering, and providing support for involvement in international trade and for business start-ups, as well

NOVI, Denmark

When the north of Denmark became eligible for structural assistance under Objective 2, it was suffering high unemployment as a result of a decline in fishing and other traditional industries. Instead of deploying EU funding in these sectors, however, it was decided to focus on developing knowledge-based activities.

NOVI is a unique combination of science park, innovation environment and venture capital provider. Established in 1989, NOVI has served as a catalyst for the development of knowledge-based companies in northern Denmark, in close cooperation with Aalborg University. As a centre of technology and innovation, it has played an important role in business development and has contributed significantly to job creation in the area.

The NOVI Science Park accommodates one of the largest clusters of R&D-based companies in Denmark. In addition, NOVI Innovation has encouraged active collaboration between research centres, businesses and capital markets to ensure the commercial exploitation of new ideas. NOVI has been involved in venture capital investment since 1989 and has grown into a significant national resource with a capital base of over EUR 67 million. It has also helped to establish NorCOM, a cluster of industrial firms in the region specialising in the development and production of mobile communications and navigation equipment, which has attracted increasing amounts of foreign investment.

Total expenditure in NOVI up to now is around EUR 35 million, EUR 21.5 million of which has been financed by the private sector and some EUR 12.5 million by the Structural Funds.

The Structural Funds were essential to the success of NOVI, having made it possible to establish and develop, on a medium-to-long-term perspective, the concept to a size where cooperation between entrepreneurs, industry and research centres has been most effective.

as on assisting individual firms. Just under 20% of assistance took the form of support for training and developing the skills of the work force, financed mainly from the ESF. In addition, just under 10% of spending went on support for R&D and ICT (Table A4.9).

This expenditure has had an important effect in helping to restructure traditional industries and to diversify economic activity in Objective 2 areas. It is estimated from detailed evaluation studies that Structural Funds intervention led to the creation of some 700,000 jobs in areas assisted over the 1994–1999 period, or just under 500,000 in net terms if account is taken of displacement effects (ie the new jobs created displacing some existing jobs)[6]. At the same time, around 300 thousand SMEs received assistance, helping them both to improve their methods of production and to seek out new markets, in addition to strengthening the business support services available to them.

This is reflected in a reduction in unemployment in these areas by more than in the rest of the EU over the programming period (on average, by 3.1% of the labour force between 1996 and 2000 as against a decline of 2.3% in the EU as a whole[7]). The reduction was especially marked in areas with a heavy preponderance of traditional industries in the process of restructuring, often accounting for close to 40% of total employment, which indicates that the loss of jobs in these industries was more than compensated by a growth of new jobs, especially in services. Although the growth in GDP per head in these regions was less than in the EU as a whole over the period (2.1% between 1995 and 2000 as opposed to 2.4%), the difference was small, which suggests their long-term decline was arrested to some extent. On the other hand, the slightly slower growth of GDP in combination with a larger rise in employment implies that labour productivity increased by less in Objective 2 areas than in other parts of the EU.

Detailed analysis indicates that support for expenditure on R&D, innovation and technology transfer seems to have been particularly effective in creating new jobs as well as saving existing ones.

Nevertheless, except for a number of prominent exceptions (such as Nordrhein-Westfalen or the North West of England), the capacity of most Objective 2 areas for innovation remains much less well developed than in the most successful regions in the EU and their research base tends not to be well attuned to the regional structure of production. Accordingly, for the most part, they do not occupy a central place in the European technological space.

This contrasts with their endowment of infrastructure and human capital. In most Objective 2 regions, transport and telecommunication systems, in particular, are of a relatively high standard, providing good connections both internally and to the rest of the EU, while population of working age is comparatively well educated. In addition, the skills of the work force have been improved and extended with the help of the Structural Funds, which has helped speed up the restructuring process as well as to slow down the loss of jobs. Training programmes have, therefore, been put in place to combat skill shortages and the rapid obsolescence of qualifications. Specific measures have also been taken, notably in the UK, to assist disadvantaged groups to access training programmes and to enter the labour market. Overall some 3.6 million people across the EU received training in Objective 2 areas between 1994 and 1999 as a result of Community assistance.

In addition, with the support of the Structural Funds, substantial efforts have been made to clean up industrial wasteland, to reconvert old industrial sites and buildings (around 115 million square metres of land in industrial areas is estimated to have been reconverted as a result of Objective 2 programmes) and, generally, to improve the environment, especially in urban areas. This has radically changed the aspect of many industrial areas and enabled them to be put to new productive use, such as for leisure and cultural activities.

Nevertheless, traditional industries, though in decline, are still causing environmental damage to many areas and areas which have been abandoned remain to be treated. Restructuring, therefore, is by no means yet complete in many parts of the EU. Evaluation studies indicate that the extent of restructuring in Objective 2 areas has varied markedly from region to region, reflecting their development potential and the effectiveness with which public funds, both from Community and national sources, have been used. While in coal and steel areas, in particular, economic activities have been restructured and modernised, there are a number of areas where traditional industries remain important and significant structural change still lies ahead, with potentially important effects on both employment and real income levels.

At the same time, lessons need to be learned from the experience of Objective 2 interventions. The positive effects which are evident need to be seen in relation to two major constraints on the effectiveness of the programmes supported which arise from the way the policy has been applied. First, the small size of many of the areas eligible for support has made it difficult to follow an efficient integrated strategy as regards the deployment of financial resources in the regions concerned. Because of the small size of the operations financed, it has been difficult in a number of cases to achieve a sufficient amount for funding projects which could have a decisive effect on regional development. Secondly, the limited time period over which funding has been given (because of the sub-division into two periods of three years) has had the effect of favouring short-term projects (for supporting jobs in times of recession, for example) at the expense of those of strategic importance for regional development.

Support for agriculture, rural development and fisheries

Measures undertaken under Objective 5a (Regulations (EC) Nos 950/97 and 951/97) and Objective 5b programmes over the period 1994–1999 have been the subject of recent evaluations. The results of these are summarised below.

Intervention in Objective 5a

The overall objective of intervention under Regulation 950/97 was to improve the overall efficiency and competitiveness of farms, while maintaining a viable agricultural community and helping to safeguard the environment and preserve the countryside. A number of measures were adopted to achieve this objective:

- the farm investment scheme gave farmers a choice of support options. In the south of the EU, mostly covered by Objective 1, the choice was to increase the efficiency of farming methods and to advance structural change, while elsewhere, more emphasis was put on diversification, animal welfare and the environment. The scheme proved more effective in areas where restructuring was a major element, such as in small farms in Objective 1 regions;

- the young farmers scheme was aimed at helping young farmers set up in operation. It was implemented in different ways across the EU and was more effective when combined with training and/or supplementary support measures. Other factors, however, such as inheritance laws, availability of milk quotas, interest rates and the tax system, seem often to have more influence on the decision to start a business. There was, however, some increase in the number of farm heads under 45 in 10 Member States;

- the less-favoured areas scheme was intended to encourage farming in such areas by compensating for natural, social, economic and other constraints. The scheme remained largely unchanged from the mid-1970s on and for the most part was never fully integrated into rural development strategies. Because payments were flat-rate, there was possible undercompensation in the most severely disadvantaged areas (eg Objective 1 mountainous areas where co-financing capacity is limited).

Intervention under Regulation 951/97 was more directly oriented toward increasing the competitiveness of the agri-food sector. Assessment of the investment funded over the period 1994–1999 suggests some improvement in the value added chain in 4 Member States, the establishment of new outlets in half the Member States, the acquisition of new machinery and use of more efficient technologies which helped limit emissions and pollution, and improvements in marketing channels in 5 Member States.

The effect of the scheme on primary producers was limited because of the increasing concentration of marketing and processing facilities in large firms and the market power of retailers and wholesalers. There were greater gains to primary producers when marketing and processing activities were organised by producer associations.

Interventions in Objective 5b areas

Objective 5b areas comprised 26% of the land area of the EU in the period 1994–1999 with 9% of the total population (around 32.7 million people). Overall funding amounted to around EUR 1.1 billion a year (42% from the EAGGF, 44% from the ERDF and 14% from the ESF) and was divided between the development of non-agricultural activities and job creation (46%), increasing the income of agricultural households (23%), improving the attractiveness of areas and the quality of life (17 %) and afforestation (4%).

The effects of assistance under objective 5b over the period 1994–1999 can be distinguished at three levels:

- in agriculture, there is no evidence of a positive effect on income, though some strengthening of the agricultural sector is apparent as well as some diversification (a shift to higher value-added production and the development of agri-tourism and environmental services, in particular);

- in non-agricultural activities, Objective 5b programmes have contributed to modernisation of

infrastructure and productive potential in enterprises, the expansion of tourism and a higher growth of employment than in other regions;

- in terms of the attractiveness of regions and the quality of life, programmes have helped to renovate villages, develop public service facilities and protect the environment.

While the effect of Objective 5b has been positive overall, some weaknesses can be identified:

- although a territorial approach is appropriate for this kind of intervention, some Objective 5b areas were not in line with the economic development process underway or the strategy being followed;

- intervention should have been based more on the promotion and spread of good practice in order to realise the potential of the areas assisted better.

In overall terms, population increased by much the same in Objective 5b areas, insofar as they can be distinguished given the data available, as in other parts of the EU over the programming period (by 0.3% a year between 1995 and 2000), while GDP growth was slightly less (2.4% a year as opposed to 2.7%) and unemployment fell by less (by 1.9% of the labour force as against 2.3%). Nevertheless, in 2000, the average unemployment rate in these areas remained below the EU average (6.5% as compared with 8.3%).

The 2000–2006 programming period

The adoption of a new Community Regulation ((EC) No 1257/99) has enabled a range of previously separate measures to be assembled under a single piece of legislation, facilitating the integration of different measures for rural development within an overall strategy, whether in Objective 1 or 2 regions or in relation to a horizontal application. This has increased the coherence and complementarity of the measures concerned (Table A4.10).

Nevertheless, the co-existence of two systems of programming, management and control, one based on Structural Fund regulations and the other on those of the EAGGF-Guarantee, has often been regarded as a source of complication and rigidity and as difficult to understand by Member States, especially those comprising Objective 1 and non-Objective 1 regions. The rules of the EAGGF-Guarantee, designed for policies for agricultural markets, have frequently been considered to be ill-adapted to, and too restrictive for, multi-annual programming.

Interventions in fisheries

Although the fishing sector contributes very little to GDP in Member States, in the regions in which it is concentrated, it tends to be an important source of both income and employment. The regions concerned are predominantly located in peripheral parts of the EU, in which there are often relatively few other job opportunities. Interventions under the Common Fisheries Programme can, therefore, make a significant contribution to regional income and to the development of other economic activities including fish farming.

Promoting employment, education and training through the ESF

The effect of the ESF on employment, training and education

During the 1994–1999 programming period, the European Social Fund (ESF) which accounted for a third of Structural Fund expenditure, provided support for the development of human resources, some EUR 22.1 billion, or 49% of the total for the period, in Objective 1 regions. At the same time, interventions under Objective 3 amounted to EUR 13 billion and were aimed at integrating young people, the long-term unemployed and those at risk of exclusion into employment, as well as at promoting equal opportunities in the labour market. In addition, Objective 4 interventions amounted to

EUR 2.2 billion and were aimed at helping workers adapt to industrial change.

The ESF provided significant support for the implementation of active labour market policies, especially in the Cohesion countries, largely on training (46% of ESF spending); integration pathways and similar schemes (20%); employment incentives (7%); counselling (4%) and job placement (3%), though the relative importance of these varied considerably between countries. Support was divided between the long-term unemployed, especially in Objective 1 regions (21% of the budget),young unemployed (17%) the socially excluded (15%), older workers (6%), those employed in SMEs (3%) and those with disabilities (2%).

Evaluation evidence suggests that, in the main, the most successful measures were those offering a combination of assistance, such as guidance, training and job search, tailored to individual needs.

In addition to helping individuals directly, the ESF contributed to the modernisation of education and training systems in Member States both at national and regional level, increasing access to training of both employers and employees and helping to expand the amount of public investment in these areas.

ESF interventions in Objectives 2 regions and under Objective 4 gave a new focus on the importance of the adaptability of the work force to industrial change and supported innovative measures which encouraged greater commitment to training and lifelong learning. They also helped to strengthen the link between the need for training and its provision through the introduction of mechanisms for anticipating employment trends.

Such interventions helped in addition to strengthen the human capital base for R&D in Objective 1 and 2 regions and in the latter were increasingly used to support knowledge based activities in SMEs, through training in management skills, advanced technologies and ICT, to encourage new methods of work organisation and to finance temporary work placements for science and technology graduates.

Although statistical data are often lacking, there is evidence that ESF programmes have influenced national policies on gender and Objective 3 interventions, in particular, seem to have played an important role in helping women disadvantaged on the labour market to find work.

In addition, the ESF has encouraged both the adoption of a stronger long-term approach to labour market measures in Member States through its multi-annual programming and the decentralisation of employment and training policies. Some 30% or more of ESF programmes are, therefore, managed at regional level, while the application of the partnership principle has led to increased involvement of social partners and NGOs as well as regional and local authorities in both the composition of Monitoring Committees and the design and implementation of operational programmes.

The 2000–2006 programming period: a closer link between the ESF and the EES

In the 2000–2006 programming period, the link between the ESF and the European Employment Strategy (EES) has been strengthened. The ESF, with a budget of EUR 60 billion, is the main financial means of supporting the EES, while the latter provides the policy framework for ESF interventions.

Around 60% of the ESF (EUR 34 billion over the period) is devoted to training and modernising education and training systems, to improve the suitability of jobseekers for new employment opportunities. Some 14% (EUR 8 billion) goes on supporting the development of entrepreneurial skills, business start-ups, the establishment of business networks and so on to promote enterprise and so help to improve competitiveness, while some 19% (EUR 11 billion) goes to assist firms and employees to adapt to technologies and new market conditions. The remaining 7% or so (just under EUR 4 billion) is devoted to measures for

supporting gender equality, which are combined with a wider commitment to incorporate the principle of equal opportunity in all programmes and activities.

The reform of the EES in 2003 should help to achieve the Lisbon objectives in an enlarged Union more effectively. The Employment Guidelines have been simplified in pursuit of three strategic objectives: full employment, quality and productivity at work and social and regional cohesion and inclusion. Specific priorities include greater emphasis on the development of human resources, the integration of those with disadvantages into employment, and a reduction of regional disparities as well as increased adaptability, lifelong learning and equality between men and women.

In addition, there is more emphasis on the importance of the participation of the social partners and on the need for Member States to implement the EES at regional and local as well as national level.

Community Initiatives: promoting cooperation and networking

A number of Community Initiatives based on partnership and trans-border cooperation supplement the support provided for cohesion under the different Objectives. Most of them have been maintained, sometimes in a modified form, over the period 2000–2006.

INTERREG

Cooperation between countries and regions is an essential element of EU cohesion policy. The activities involving such cooperation are very diverse reflecting differences in levels of development and institutional and administrative contexts. They are also more complicated to implement than other Structural Fund programmes.

Compared to mainstream programmes, the overall financial size of INTERREG II programmes was relatively limited at about EUR 400 million a year (although resources were increased significantly over the period 2000–2006 with its successor, INTERREG III).

Over the period 1994–1999, 75 INTERREG II programmes were supported under three strands: cross-border cooperation (Strand A), completion of energy networks (Strand B) and cooperation in regional and spatial planning (Strand C). Within Strand A, 59 programmes were implemented along internal and external borders with a length of more than 15,000 km. The eligible programme areas covered around 36% of the total EU territory with around 27% of the total EU population. 11 INTERREG IIA programmes alone received more than two-thirds of the total support.

Larger INTERREG programmes have produced significant output in the form an extension of road networks, improvements in border entry points, an upgrading of rail connections and, as in the INTERREG IIB programmes, the creation of new transport links and the development of alternative energy supplies. Such projects contributed to closer economic integration in the EU.

Main achievements and added-value

Strands A and B cover a large group of diverse programmes in terms of the size of funding, the geographical area concerned and orientation. The results of the INTERREG II evaluation show marked effects in the case of Strand A, by far the largest strand. Programmes seem, in particular, to have had a beneficial effect on the quality of life through improving the environment and supporting cultural activities. They also seem to have brought gains to tourism, established services for SMEs and improved, education, training and health care as well as transport. Direct participation by businesses in programmes and cooperation between firms were, however, much more limited.

The results in terms of reducing isolation have been mixed. In the case of programmes in the more isolated Objective 1 regions, most funding went to transport. In

a number of border areas, particularly in Greece, Germany and Finland, road connections at the border, cross-border crossings and port facilities were improved significantly, while there were more limited effects in areas along the Spanish-Portuguese border and in Austria.

Part of the added value of INTERREG IIA programmes is their contribution to establishing and strengthening a culture of cross-border cooperation both inside the EU and between the EU and neighbouring countries. The main benefits have come through increased daily contact and the building of mutual trust and understanding between various entities, including public authorities and private and semi-public organisations.

In many cases, a particular contribution of INTERREG was to enable specific problems to be tackled which could not have been addressed through other support programmes. The Initiative therefore constituted the initial stimulus to bringing about widespread cross-border cooperation, so making it possible for other projects to be undertaken.

The relatively small number of large-scale projects funded under Strand B (in Greece, Italy, Spain and Portugal) were directed towards extending and integrating gas and electricity networks, though these were confined to individual countries.[8]

INTERREG II was also aimed at encouraging networking between countries, the exchange of experience between regions and the dissemination of knowledge in order to spread good practice across the EU. A key feature of Strand C projects is their experimental nature. They, therefore, included studies, the development of databases and mapping, integrated planning methodologies and pilot projects. Although it is difficult to determine their effect in quantitative terms, they have helped to define methods and arrangements for cooperation.

The continuity and sustainability of activities, however, need particular consideration. Although

Examples from INTERREG

Reducing isolation and eliminating bottlenecks along the Ireland/Northern Ireland border

The Ireland/Northern Ireland programme allocated EUR 30 million of Structural Funds to a 'Roads & Transport Infrastructure' scheme, helping to finance 69 projects for improving some 110 kms of secondary roads, which were regarded as either "bottlenecks" or "missing links". Another 104 projects, involving some 166 kms of road, were aimed at alleviating constraints on economic development in border regions and improving economic opportunities in wider areas on both sides of the border. Some of the projects also led to improvements in access to major international transport corridors, including TEN-T.

The programme also contributed to improvements in public transport. Between 1994 and 2000, three bus station improvement projects contributed to increasing the number of local and cross-border services as well as passenger numbers.

Cross-border business development and cooperation between SMEs in Scandinavia

The INTERREG IIA programmes covering the border areas between Denmark, Sweden and Finland and the external borders with Norway, which have involved network building, the organisation of exhibitions, the construction of databases and business promotion, are examples of good practice in relation to the development of cross-border business activities and strengthening SMEs. In the Øresund region on the Denmark-Sweden border, support for cross-border business activities has led to the creation of clusters of new industries, including in biotechnology (e.g. Medicon Valley) and food processing (e.g. the Øresund Food Network). The 41 projects involving the creation of business networks have led to some 300 additional jobs in the area. The programmes along the Swedish-Norwegian border involved over a thousand companies in various business development networks, including one for women entrepreneurs.

examples of self-sustaining activities are evident in most INTERREG IIA programmes, Community support is still necessary to ensure the viability and stability of many projects, especially those involving the establishment of networks.

Factors influencing effectiveness

Under Strand A, the most successful programmes were those jointly developed around a limited number of objectives and priorities with a long-term strategic focus. They also tended to involve extensive and close cross-border partnership, both formal, as expressed in the institutional arrangements for programming and management, and informal.

Management capacity (including an efficient secretariat) is vital but its importance has often been underestimated. Proactive support to potential recipients of funding and to project promoters is the key to generating and sustaining sufficient numbers of good, genuine cooperation projects and making the most of the results produced.

The benefits of coordinated action at urban level

In the Magdeburg-Cracau project, URBAN provided support to very small firms by funding a scheme, which would not normally have been eligible for ERDF funding. Similarly, in the Hackney borough of London, URBAN tackled problems — the needs of socially-excluded groups in particular — which were not covered by the East London Objective 2 programme.

In Spain, around half of URBAN programmes had parallel aims to Objective 1 and 2 programmes and in 6 Spanish cities, there were strategic links with other Community Initiatives. In Portugal, all 6 URBAN programmes were designed to support Objective 1 investment, mainly on roads, the environment, and social infrastructure.

In some areas bordering third countries, the complex arrangements put in place because of the specific regulations of the different funding bodies involved (Phare, Tacis, Cards, Meda, in particular) have undermined the effectiveness of programmes.

The fundamental problem of managing cross-border and trans-national programmes is the often very different legal and administrative rules and traditions in the different countries involved, quite apart from language differences. Part of the aim of INTERREG is to overcome such differences (e.g. by the creation of common management structures and joint technical secretariats). The difficulties encountered require *ad-hoc* legal arrangements on the part of the Member States concerned. A number of these arrangements have involved several Member States, some consisting of bilateral agreements, some multilateral and a few using the European Economic Interest Grouping approach. None of these arrangements, however, provides a European-wide solution to the problem of implementing cross-border cooperation.

URBAN

The URBAN Initiative covers 44% of EU population who live in urban areas with over 50,000 inhabitants. It was introduced in 1994 following a number of pilot projects and the European Commission Guidelines for the 2000–2006 programming period, which requested Member States to pay special attention to urban policy in their Objective 1 and 2 programmes.

Over the period 1994–1999, URBAN provided EUR 148 million a year for urban pilot projects in 118 cities, while some EUR 104 million a year has been made available for the period 2000–2006 for projects in 70 cities. The main focus of the Initiative is on small urban neighbourhoods and on concentrating funds on a number of integrated programmes involving the active participation of local communities.

Evaluation studies indicate that the projects have led to some improvement in the quality of life in the 118 neighbourhoods participating, as a result of

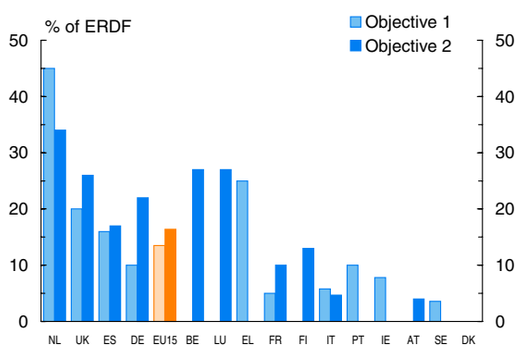
investment in public transport, education and cultural facilities and increasing access to public services so reducing social exclusion. They have also helped to realise the inherent economic potential of the areas concerned, often benefiting adjacent areas as well.

URBAN has focused, in particular, on creating and improving local social capital, in part by including active learning measures as an integral part of programmes. The involvement of local communities has, moreover, helped to raise the visibility of EU structural policy in many cities throughout the EU and the kinds of project undertaken have had a direct impact on people's lives.[9] URBAN has also helped to shape national urban policies across the EU.

URBAN has, in addition, acted as a catalyst for regeneration and, in some cases, has had a major leverage effect on investment. In Rostock, in Germany, for example, a study estimated that for every Euro invested in renovation in the URBAN area, a further 3.9 Euros were generated in and around the area.

At the same time, concentrating support on small areas may have limited the impact of the Initiative, since it leaves out of scope projects aimed at tackling national or regional problems, including those concerned with the relationship between urban and surrounding rural areas or the creation of 'clusters' of particular industries if these spread beyond the immediate area.

4.5 Estimate of urban spending in Objective 1 and 2 programmes, 2000-2006



Source: DG REGIO calculations

Since Objective 1 and 2 programmes also devote substantial resources to tackling urban problems, the support provided needs to be better coordinated with these so as to increase the participation of local authorities in the design and management of programmes and projects affecting urban areas[10] (Graph 4.5).

ADAPT, EMPLOYMENT and EQUAL

Two Community Initiatives, ADAPT and EMPLOYMENT, were launched in 1995 to support human resource policies. A new Initiative EQUAL, was introduced in the current programming period to combat discrimination and unfair treatment in the labour market. EMPLOYMENT and ADAPT received 7.5% of the total ESF budget. They were mainly co-financed by national governments, though they also attracted some private finance, especially ADAPT. The two Initiatives together provided funding for some 9,300 individual projects and involved around 1.6 million people.

ADAPT and EMPLOYMENT were aimed at involving local people and organisations in different countries in innovative programmes designed to:

- build local and regional partnerships, involving relevant parties in both the public and private sectors, to facilitate labour market integration and job creation;
- encourage an international exchange of ideas and experience to improve programmes and stimulate innovation;
- act as a catalyst for change, to feed new ideas into policy and practice in both the public and private sectors through the dissemination of project results and by demonstrating their relevance for meeting labour market needs.

Projects funded included measures to facilitate access to work and learning for all through individually-tailored 'pathway' programmes;

support for new sources of employment, such as in the social economy; help for SMEs to anticipate and adapt to market change; the provision of training; the encouragement of flexible working arrangements; and support for women to help them realise their potential in the labour market through desegregation of occupations and sectors of activity and making it easier for them to reconcile work and family life.

These Initiatives have been effective in a number of different ways. In Finland, the 'Integrated Employment Model', developed with the support of EMPLOYMENT, is now being applied in Objective 3 programmes. In Italy, a number of regional authorities have adopted policies based on EMPLOYMENT approaches. In Belgium, the EMPLOYMENT 'Youthstart' project was one of the inspirations for the introduction of a modular approach to vocational training in the Flemish education system and in the UK, for the 'mentoring' element of the 'New Start' Initiative. In Greece, a variety of innovative projects influenced the design of policies for people with disabilities.

In the case of ADAPT, a pilot project on job rotation led to a system for the temporary replacement of employees on training leave being set up in Portugal as part of labour market policy. In Sweden, approaches to the development of skills and competencies pioneered with ADAPT support have been taken up by national programmes. ADAPT projects have also led to regional agencies becoming involved in employment issues in Austria and Italy and to the activities of different organisations being better coordinated in France and Ireland.

Building on the experience gained from these two Community Initiatives, EQUAL is aimed at promoting new means of combating all forms of discrimination and inequality in the labour market, giving a strong emphasis to the development of partnerships and trans-national cooperation as well as to the incorporation of innovative approaches into policy.

LEADER

LEADER II covered more than 36% of the EU land area and 12% of the population in the 1994–1999 programming period. Almost 1,000 organisations received assistance for rural development under the Initiative, over 90% of which were local action groups (LAGs). The Structural Funds contributed some EUR 300 million a year to LEADER II out of a total of EUR 700 million a year, deployed to assist rural tourism (the main activity supported), SMEs and the development of local products and to provide technical support to LAGs. In addition to the direct support given, LEADER II had beneficial effects by:

- creating local partnerships, in the form of LAGs in particular, set up either in an area or field of activity;
- developing a bottom-up approach, implemented collectively, within an innovative, multi-sectoral and coordinated strategy for local development;
- helping to further cooperation and networking between areas;
- decentralising the management of available funding (from both the Structural Funds and national sources).

The number of recipients of LEADER II support as well as the area covered was over 4 times larger than under LEADER I in the previous programming period. The two Initiatives helped to create a culture of partnership and encouraged people and organisations on the ground to see local development as a matter which concerns them and to feel responsibility for what happens in their area. The LEADER approach has enabled local development strategies to adapt flexibly to different territorial circumstances. Under LEADER II, moreover, the accent was put on innovation which has since been applied very widely as a common method of tackling rural development problems.

Those supported by the Initiative tended to respond positively to the call to become involved in networking, but the exchange of experience mainly occurred between those who were already the most actively engaged before. On the other hand, the emphasis on cooperation gave rise to joint projects in a number of rural areas and led to some 600 such projects being set up involving participants in different countries.

The Initiative also encouraged the formation of informal networks and local activities, helping to open up new areas and improve local governance, the latter being encouraged further by the decentralisation of management of LEADER projects. In addition, it helped to develop local know-how in the areas assisted, in terms of the definition of objectives, methods of planning, management and evaluation. Nevertheless, the management of finance was often regarded as unwieldy and bureaucratic, in large part because of the coexistence of three Structural Funds, each with its own regulations.

LEADER+, introduced in the present programming period (2000 to 2006) with EUR 300 million a year, has been built on the experience of LEADER I and II . Without the basic principles being changed: emphasis has been put on the pilot nature of projects, with local development strategies being formulated, above all, around a limited number of themes of Community interest. The methods of partnership have been better defined and the conditions for cooperation simplified, while Community financing comes from the EAGGF alone.

Pilot innovative actions: what are the lessons?

The first experimental activities to support innovation in relation to regional and social policy were launched by the Commission in 1993–94, effectively pioneering the development of the knowledge-based economy at regional level. Today, nearly one in three regional authorities across the EU15 have formulated a Regional Innovation Strategy (RIS[11]) or a Regional Information Society Initiative[12], aimed at developing effective innovation systems and the spread of ICT know-how at regional level. The initial pilot actions, which in most cases have been extended over the years, were based on a demand-led, 'bottom-up' planning process, creating strong public-private partnerships involving businesses, universities, technology centres and public authorities in the regions concerned.

Around 30 regions provided support for clusters and business networks as part of their action plans and a range of business support measures targeted at SMEs were developed. In many cases, priority actions to support innovation identified by RIS have been incorporated into Objective 1 and 2 programmes,

Setting the foundation of the knowledge-based economy in Castilla y León in Spain through Structural Fund support

Castilla y León, an Objective 1 region in Spain, was selected by the European Commission to prepare a Regional Technology Plan (RTP) in 1997. The Objective 1 Structural Fund programme was utilised to fund the policy priorities and actions stemming from this Plan in the R&D and innovation domain. The intention behind the plan was to involve as many relevant organisations as possible and to create a broad consensus between them. Initial results are encouraging: public expenditure has risen by over 11% a year and business spending on innovation rose by over 15% in the second half of the 1990s; at present nearly 1,400 businesses (95% of them SMEs) are taking an active part in publicly supported innovation programmes as opposed to just 600 or so in 1995.

Total R&D expenditure rose from 0.6% of non-agricultural gross value-added in the region in 1995 to 0.9% in 2000, while total spending on innovation increased from 1.4% to 1.7% between the two years. At the same time, the number of full-time research workers and equivalent technical staff increased from 3½ in every 1000 employed to 5. The region has now the second highest expenditure on R&D per head of Objective 1 regions in Spain and the eighth highest of all Spanish regions, despite the predominance of SMEs and the importance of agriculture and other traditional industries.

resulting in better projects and more funds for public investment, while RISI increased awareness of the social and economic effects of the Information Society and the spread of ICT and encouraged the development of projects related to the eEurope action plan.

Innovative actions funded by the ESF also had positive effects on employment and social inclusion. The Local Social Capital pilot project (ESF funding of EUR 3.5 million a year) supported 3,350 micro-projects, each receiving an average grant of EUR 8,000 and reaching a wide range of people unlikely to obtain other types of support.

A new system for ERDF innovative actions was introduced in 2001 to underpin the Community priorities of increasing regional competitiveness, technology and innovation (as agreed in Lisbon in 2000), applying new forms of IT (the eEurope action plan) and promoting sustainable development. The aim is to ensure that every EU region has the means to explore new policies for developing the knowledge-based economy in order to increase the importance of innovation in Objective 1 and Objective 2 programmes. Under the scheme, regional authorities were able to apply for up to EUR 3 million of ERDF co-financing for two-year programmes, which needed to be based on strong public-private partnership, to have a substantial leverage effect in raising private finance and to incorporate a strategic approach to innovation. At present, three out of four regions in the Union are developing such programmes with a total budget of almost EUR 1 billion and ERDF funding of around EUR 400 million. In addition, separate networks have been set up on each of the three strategic themes involving over 40 regions, operated in cooperation with the Commission, in order to promote collective learning and the exchange of good practice.

Improving the effectiveness of management methods

In the last review of the Structural Fund regulations in 1999, there was an attempt to clarify the respective roles and responsibilities of the Commission and the Member States. The aim was to simplify the system while also ensuring more decentralisation of responsibility to the Member States. In parallel, the Commission has attempted to play a less active role in day-to-day management.

There is still, however, a certain tension. While the Commission remains accountable to the European Parliament and Council for expenditure of the Funds, how the Funds are spent is increasingly the responsibility of Member States. Because of this tension, it has become evident that the management system for the Funds has not become simpler or more streamlined.

The recent simplification exercise[13] sought to reduce complexity and confusion within the confines of the provisions of the current Structural Funds regulations, while also trying to improve coordination and flexibility. Consideration must now turn to the changes in the regulations which are required to maximise effectiveness, ensure proportionality and reduce unnecessary complexity. Such changes in administrative requirements need to be based on an analysis of the strengths and weaknesses of the present system and decided well before the implementation system for the new funding period is designed. To this end, the Commission held a seminar in 2003, which brought together more than 600 participants, as part of the wider debate on the future of the policy launched by the Commission in 2001[14].

The core principles

Programming, partnership, concentration and additionality were introduced as the unifying principles of the Structural Funds in the 1988 reform and they remain at the heart of the management of the Funds, intended to increase their effectiveness and impact. A diversity of management practices has evolved which respect the core principles but take account of the institutional context and administrative capacity in individual Member States, which themselves tend to change over time.

Programming leads to stability and coherence but needs streamlining

Multi-annual programming has been one of the main successes of the Structural Funds method and the benefits of this approach have become clearer over time as Member State capacity to plan programmes over a number of years has developed. The relative consistency and coherence in programming since 1989 has facilitated longer-term and more strategic planning.

From a financial perspective, multi-annual programming gives rise to a greater degree of certainty and stability as regards the availability of funding than annual budgeting. This is particularly relevant in the context of major infrastructure investment which takes years to complete.

Different aspects of the programming process have developed over time:

- the inclusion into programming documents of baseline data to support the socio-economic analysis and quantified objectives, so leading to greater transparency in programme implementation;

- the lengthening of the programming period, reflecting growing capacity for multi-annual programming, but giving rise to the challenge of ensuring that procedures are flexible enough to allow programmes to be adapted in response to change;

- less positively, concerns have grown over the length of time and complexity involved in approving programming documents, which stem in part from the introduction of the programme complement.

Striking the right balance between the need for transparency and accountability of programmes (which requires more detailed information and monitoring mechanisms), for flexibility within programmes, and for the partnership with the Commission to be transformed into a more strategic exercise rather than one of micro management, remains a difficult challenge for cohesion policy.

Partnership becomes stronger and more inclusive

Partnership has widened and deepened over the 15 years of cohesion policy and has extended in some cases beyond the Structural Funds into other areas of national and regional administration. While in 1988 partnership was conceived primarily as the vertical relationship between the Commission and national, regional or local authorities, the horizontal dimension of partnership, including a wider range of stakeholders at local, regional and national level, has grown stronger over time. When it works effectively, partnership adds value in many ways:

- in programme design, it helps to focus interventions on the needs of the region or particular target groups;

- it stimulates ideas for projects, through partners communicating opportunities in relation to Structural Fund requirements;

- it provides inputs to the monitoring process through knowledge of the operation of the programme on the ground, so helping to identify solutions to problems of implementation;

- it means that a broader range of views is brought to bear on the evaluation process;

- it helps disseminate information on the Funds and their impact in the area concerned more widely.

Partnership remains a core principle for management, monitoring and evaluation of the Funds and can add much value, particularly where the roles and responsibilities of the participants are clearly delineated. The Territorial Employment Pacts provide a good example of partnership working. These

added value to local development and employment through:

- enhanced resource deployment at local and regional level;
- the matching of supply and demand;
- reducing administrative overlap;
- encouraging policies to be more clearly defined.

Over time, mainstream Structural Fund programmes have also entailed increased involvement of the social partners in programming and management. The European Economic and Social Committee in September 2003 adopted an exploratory opinion on *Partnership for implementing the Structural Funds*, which recommended that partnership be strengthened since it contributes to the success of programmes by giving them greater legitimacy, by making it easier to coordinate them and by increasing their effectiveness as well as transparency. The benefits of partnership are particularly evident in ESF programmes where many actors at the local level have become directly involved in EU-funded programmes.

While there is broad agreement that partnership adds value to the effectiveness and impact of the Structural Funds, it also introduces new layers of complexity into the process of designing and delivering policies, which can slow down decision making. There is, therefore, a trade-off between the additional complexity resulting from partnership and the improvements in design and implementation which it can bring.

Concentration

Concentration is intended to ensure that the impact of the Structural Funds is not dissipated through resources being spread too thinly, whether geographically, financially or in terms of policy priorities, while at the same time making sure that all regions with serious structural problem receive assistance.

Geographic targeting has been guided by defining the eligibility of areas under the objectives for the Structural Funds. Some progress has been made in this regard, the 2000–2006 programming period having a higher level of concentration than the two previous periods, with 41% of the population of the EU being covered by Objectives 1 and 2. Nevertheless, the process of identifying Objective 2 regions in the present period was overly complex and led in some cases to fragmentation of regions and dispersion of resources. For the years 2004 to 2006, all regions of the 10 new Member States will be covered by Objective 1, except Prague, Bratislava and Cyprus, in which, taken together, 31% of the population will be covered by Objective 2.

Concentration on policy priorities is reflected in the Commission guidelines, which define priorities in relation to transport, energy, competitiveness, human resources, rural development and, increasingly, environmental considerations. The non-binding, and sometimes too broad, nature of these guidelines has, however, reduced their impact.

Indeed, while progress has been made, evaluations indicate that the Structural Funds are sometimes spread too widely and thinly. Programmes which include every possible eligible action are unlikely to have an effective impact, while their management is likely to be complex and unwieldy, involving numerous implementing bodies and an overly extensive system of indicators.

Additionality

Additionality — the principle that the Structural Funds must not be used to replace existing public investment — has ensured that the Structural Funds genuinely increase the finance injected to stimulate regional development. This principle has demonstrably been respected in Objective 1 regions, where, despite the complexities involved, it is possible to identify the amount of resources being invested. Establishing additionality for Objective 2 and 3 programmes, especially the latter, has been more difficult, undermining

its value as a core principle for all Objectives of the Funds.

The evolution of structural policy and the search for effectiveness

Expertise in implementing Structural Fund programmes has grown as experience has been gained. Over time, requirements have been specified more clearly in the regulations, with the respective roles and responsibilities of the Commission, national governments and regional authorities being defined in more detail. Achieving the right balance between rigorous management with the administrative cost involved, on the one hand, and the effectiveness of programmes, on the other, is a key challenge for the future.

Financial management and control — the right balance?

Provisions relating to financial management and control have been strengthened considerably over time. The Commission remains accountable to the budgetary authority and is subject to the external control of the Court of Auditors for Structural Fund expenditure, even in the context of greater decentralisation of responsibilities to Member States, which creates some tension between the role of the latter and that of the Commission.

Under the Treaty, the Community and Member States have a shared responsibility for safeguarding EU finances and the Commission has powers to combat fraud, corruption and illegal activities which prejudice Community interests. The introduction of more detailed control requirements midway through the 1994–1999 period resulted in a more effective and rigorous control regime in general in Member States, though — as problems encountered at the closure of programmes have shown — it has been difficult for Member States to give satisfactory assurances on the regularity of expenditure declared for the whole of the implementation period.

For the period 2000–2006, the Commission worked with Member States to develop control requirements further and to make clear the respective responsibilities of the managing authorities, on the one hand, and the paying authorities, on the other. The architecture developed for ensuring adequate financial management and control and the principles set out are widely accepted, although there is scope for wider application of proportionality in the requirements.

Furthermore, the late adoption of the regulation by the Commission well after the start of the programming period, together with the overlap with the closure of the preceding period, caused significant difficulties for the effective start-up of the measures required. The combination of this with the introduction of new rules on commitments and payments[15] helps to explain the large accumulation of amounts still to be paid at the end of 2002.

Overall spending on structural intervention increased strongly in 2003, passing the 2000 level for the first time, with total payments reaching EUR 28.6 billion. This seems to reflect:

- for the 2000–2006 period, the combined effect of the financial discipline imposed by the 'n+2' rule, the simplification measures introduced and a real start-up of programmes on the ground;

- for the 1994–1999 period, a significant reduction in commitments waiting to be spent.

Spending in relation to commitment was highest for the Cohesion Fund, 100% of which was spent and the ERDF, 96.5% of which was spent.

While regional authorities recognise that checks and controls are designed to improve management and governance, the extent of the requirements is often seen as a burden for which the gain does not warrant the administrative costs involved. There is a perception of a lack of flexibility in the current programming period, particularly in view of the `n+2´ rule (under which budget appropriations have to be spent within

two years or be forfeited). There is also a concern that there is unnecessary duplication of procedures with national systems. A particular criticism is that the new requirements were decided at a late stage, forcing regions to modify systems which had already been defined. This led to delays in programme implementation, with knock-on effects because of the `n+2´ rule, creating pressure to spend at the expense of quality and innovation. According to some Member States and regions, the cost of implementing all the financial control procedures required by the Commission is too high compared to the benefits achieved. The issue of cost is particularly acute for Objective 2 interventions. For these, there is evidence that implementation costs are a high proportion of total expenditure.

Project selection and implementation

Except for large projects (over EUR 50 million total cost in the 2000–2006 period), project selection is the responsibility of the Member State or region concerned. According to evaluations carried out, project selection procedures were generally found to be formal but robust, with both competitive and queuing systems being used. In some cases, procedures were found to be too complex, which may discourage prospective project promoters. For Objective 1 programmes, a lack of transparency was observed in some cases, while in Objective 2 regions, there was evidence of increasingly widespread use of formal criteria and growing professionalism and transparency. In Objective 6 regions, however, project selection was at times confused and tended to involve only a narrow range of participants, while, because of the newness of the system, insufficient attention was paid in many cases to project development.

Despite the increase in the standard of management of public funds, there is still room for improvement, especially in relation to the selection and implementation of large investment projects. According to the *ex post* evaluation of Objective 1 programmes, only a third of projects reviewed were completed within the originally planned time scale and a third were over a year late, while two-thirds of projects examined ran over budget, with 20% costing over 30% more than originally planned. Among the causes identified for these overruns were inadequate planning, including not anticipating land ownership problems, inadequate cost estimates and administrative delays.

Developing a more strategic role for monitoring systems

Though monitoring is a vital component of the system, experience suggests that the focus of monitoring committees is overwhelmingly on issues of financial management and, in particular, on trying to ensure absorption of the Structural Fund resources, rather than on strategic management. This focus influences the decision-making process, contributing to a tendency for resources to be spent where their absorption is tried and tested and militates against more innovative approaches and directions being followed. The development of a more strategic role for monitoring committees is one of the challenges for improving the functioning of cohesion policy. In this regard, it is important that the partnership role of monitoring committees is recognised by managing authorities and that they are not merely mechanisms for “rubber stamping” decisions taken elsewhere.

The evaluations of Structural Fund programmes have drawn attention to the poor quality of monitoring during the 1994–1999 period, even if improvements were evident, and emphasised the need for monitoring committees to have access to meaningful information on the progress of the implementation of programmes.

Though monitoring has been strengthened for the 2000–2006 period, with emphasis on the use of indicators and the setting of targets, problems persist. In particular, indicators often lack a clear definition and proliferate in some cases, especially where programmes have too broad a focus. In addition, monitoring systems are in many cases not yet fully operational, three years after the start of the programming period, and are complicated by the different requirements of the ERDF, ESF and EAGGF.

Evaluation

Evaluation of Structural Fund programmes developed and improved during the 1990s, leading to greater transparency and accountability in the management of the Funds. Whereas in 1988, the emphasis was mainly on auditing the operation of the Funds, the focus broadened over time to the results achieved from the expenditure carried out. While all Member States observe the requirement to undertake evaluation of the use of the Funds, and in some cases have introduced the practice in other policy areas, the way that it is implemented still varies considerably across Member States, reflecting different traditions and cultures.

In the past, evaluations had little impact because they were completed too late to influence the key decisions they were designed to inform. To address this problem, the current Structural Fund regulations specify deadlines for evaluation which are linked to the performance reserve. The Commission will prepare a communication on the results of the mid-term evaluations and the allocation of the performance reserve in the course of 2004.

Evaluations are now required to be undertaken at an *ex ante* stage by Member States, at mid-term by Member States in cooperation with the Commission and *ex post* by the Commission. The mid-term evaluation, with its time frame fixed to ensure that the results can be used, is perceived by some to be too rigid[16]. It has also been suggested that undertaking the *ex post* evaluation two years after the end of the programming period creates difficulty in making effective use of the results.

Greater involvement of regions and Member States is likely to improve the exercise and make it more useful and relevant, implying that more consideration needs to be given to designing programmes of evaluation which are adapted to regional and national needs.

First results from the mid-term evaluations

All Structural Fund programmes for the 2000–2006 period were subject to a mid-term evaluation. This was completed before the end of 2003. An initial analysis of the results suggests the following:

- the relevance of the strategic choices made in 2000 is largely confirmed, particularly the emphasis on the Lisbon priorities (innovation, information society and networks), expenditure on which amounted to around EUR 60 billion or 30% of the Structural Funds. There is scope, however, for even greater focus on these priorities, particularly in relation to innovation and missing links in networks;

- despite a slow start, the rate of financial absorption has increased and the `n+2´ rule seems to have stimulated more rapid implementation of programmes. In certain cases, however, a too mechanical application of this rule seems to have had a detrimental effect on quality and innovation;

- systems for the selection and implementation of projects are judged to be better than in the past, but in certain cases heavy bureaucratic procedures have introduced inefficiencies;

- administrative modernisation, in part stimulated by the Structural Funds, needs to be accompanied by 'intelligent' information systems to enable managers and decision-makers to evaluate interventions on an ongoing basis and take corrective action where necessary. Monitoring systems based on an extensive range of indicators need to be simplified and focused on a more strategic use of information;

- the extent to which objectives have been achieved is relatively high for certain programmes, particularly on transport infrastructure.

While it is too soon to identify the effect over the 2000–2006 period as a whole, in Spain, the impact of investment made in 2000 to 2002 under the Community Support Framework (Structural Funds plus national public expenditure) is estimated at 0.4% of GDP (and is forecast to be 2.4% in 2006).

The performance reserve — rewarding achievement

The performance reserve combines several aspects of good management practice, specifically financial control, effectiveness of implementation, monitoring and evaluation. The reserve is an innovation under which, in the present programming period, 4% of Structural Fund resources are held back for allocation by 31 March 2004 at the latest on the basis of achievement of targets specified initially in the programming documents. The targets relate to effectiveness (outputs and results achieved), financial issues and management. Although the operation of the reserve is still to be tested in practice, it is a first step towards management by objectives and introduces for the first time a financial incentive for good management, an objective which Member States and regions have an obvious interest in achieving.

While some concerns have been expressed about the actual mechanism introduced, particularly its rigidity and complexity, the reserve has focused attention on important performance issues such as financial absorption and the quality of data used for monitoring. At the same time, concern has also been raised that the

Some preliminary results in Spanish Objective 1 regions for 2000–2002

- Improved accessibility: 476 kms of roads or motorways and 173 kms of railway lines built or improved; 810 kms of energy distribution networks constructed; 250 kms of gas pipeline built;
- support for the productive environment: 4,600 SMEs supported with a leverage effect on investment estimated at some EUR 12.2 billion;
- development of the knowledge society: 1,503 research centres and 48,199 researchers supported; installation of 26.864 ADSL lines;
- human resources: around 7 million people supported by the ESF, of which 57% received training.

The perception of EU structural policy in the regions

The case studies surveying the views of regional officials on EU policy referred to in Part 3 above also collected their opinions about the operation of the Structural Funds. There was unanimity among those surveyed about the positive impact of the Funds in Objective 1 regions, particularly on infrastructure and most especially in the Cohesion countries where convergence of GDP per head to the EU average was a major objective of national policy.

In other Objective 1 regions receiving smaller amounts of funding, it was recognised (in Flevoland and Highlands and Islands, for example) that eligibility for Objective 1 support had led to greater priority being accorded to them under national regional policy.

In Objective 2 regions, the case studies confirm the difficulty of finding data at an appropriate regional level to throw light on developments and the fact that the financial sums involved were generally not sufficient to reverse the deterioration in the situation in the regions concerned.

Yet, Objective 2 areas are often those in which most problems in the region in which they are located accumulate, whether they concern demographic trends, the level of education, the restructuring of traditional industries, unemployment, the environment and so on. Business investment tends to concentrate in other parts of the region or in neighbouring regions, leaving the Structural Funds alone to provide support.

In many cases, the focus was on the qualitative rather than the quantitative effect of the Structural Funds, especially in regions where Structural Fund receipts were relatively small, whether in relation to GDP, investment or the national budget. In these cases, partnership along with programming and the pursuit of an integrated strategy at regional level were the most frequently mentioned benefits from the introduction of the Community approach. This was considered to have strengthened institutional capacity and more especially the expertise needed

for evaluation, particularly in relation to horizontal themes, like equality of opportunity, sustainable development or innovation.

Except in regions with a high degree of autonomy, the application of Community policies does not seem, in general, to be formally coordinated. At the same time, the possibility of coordination is hindered by the lack of a strong regional management structure. The almost unanimous opinion, however, was that the present programming period involves more coordination than in previous periods because of the experience gained.

Nevertheless, the substantial increase in the costs of management, evaluation and control in the 2000–2006 programming period was greatly criticised (one of the studies mentioned an increase from 5% of total costs to 20%). There was also wide discontent over the complexity of the procedures for managing cohesion policy which has increased in each new programming period. On the other hand, cooperation with the social partners, businesses and other organisations was generally viewed as a significant advance that needs to be continued further.

Committee of the Regions proposals for improving the management of the Structural Funds

The Committee of the Regions was asked to prepare a report on the way in which the management of cohesion policy could be simplified after 2006, based on a broad survey of the authorities responsible for administering the Structural Funds on the ground. The findings were discussed at a conference in Leipzig in May 2003 and presented to the European Commission in July 2003. The Committee's recommendations are as follows:

- greater coherence and closer coordination, both internally (between the different Funds, the different Commission services and different government departments) and externally (between Community, national and regional programmes);
- better application of the principles of subsidiarity and proportionality, with acceptance that regional and local authorities are generally the most appropriate bodies for taking policy decisions and implementing them efficiently;
- the continuation of a Community-based regional approach;
- the maintenance of resources, since a cohesion policy with reduced funding is inconceivable;
- the increased contribution of sectoral policies to cohesion;
- greater simplification of procedures and a strengthening of co-responsibility;
- greater recognition of the importance of regional cooperation as a means for achieving integration.

focus on financial absorption might shift attention away from quality on to spend.

Diversity of management practices

Although Structural Fund procedures have been described as "one-size-fits all", the findings of evaluation and other studies demonstrate the great diversity of practices which exists as well as the growing capacity of authorities to manage the Funds. Best practice principles are enshrined in the regulations and they have been clarified and improved with each programming period. At the same time, every Member State has gone through its own cycle of development to increase its capacity to implement the Funds more effectively over time.

Three main types of approach to managing the Structural Funds can be identified:

- a highly centralised approach which mainly involves sectoral programmes;
- a mixture of centralised and decentralised programmes;
- a decentralised approach which applies to more regional programmes.

Systems have evolved over time, often progressing from a centralised approach through a mixed one to a more decentralised approach. The results of evaluations indicate that either the centralised or the decentralised approaches are more efficient, though the latter tends to be more effective because it makes it easier to respond to regional needs.

A centralised approach tends to be more efficient because of faster decision-making and greater flexibility, but, as well as being less responsive to regional needs, it tends also to use more traditional procedures which can militate against innovation. While most of the Cohesion countries and the southern Italian regions operated centralised systems in the first programming period, more decentralisation is evident in later periods, though less so in Portugal than elsewhere, with Italy, Spain and Greece beginning to decentralise in the 1994–1999 period and Ireland in 2000 to 2006.

Elsewhere, Objective 1 regions in eastern Germany and those spread across other countries have decentralised systems, which though sometimes complex can also work efficiently.

Management of the Structural Funds in Objective 2 regions is in general decentralised. Even in countries with a centralised tradition, such as France and UK, there has been increasing devolution of decision making powers and administrative autonomy to Objective 2 regions. More generally, Objective 2 programmes have increasingly been integrated into regional policy structures.

Enlargement and cohesion policy: the challenges ahead

Structural Fund support will be of central importance to the new Member States in strengthening their economic competitiveness and catching up with the rest of the EU in terms of GDP per head. The experience to date of the various pre-accession funds is reviewed below and some lessons are drawn from the negotiations on the National Development Plans and programmes for the implementation of the Structural Funds over the period 2004–2006.

Experience of the pre-accession funds

During the 2000–2006 period, the EU is providing around EUR 3 billion a year in financial support to accession countries. This comes from three different sources: ISPA (Instrument for Structural Policies for Pre-accession aid), which funds transport and environmental projects; SAPARD (Special Action for Pre-Accession measures for Agriculture and Rural development), which is self-explanatory and PHARE, which finances the strengthening of administrative and institutional capacity in preparation for accession.

Pre-accession assistance was intended, in part, to be a learning exercise for the countries concerned on how to use the finance effectively before receiving much larger funds after accession. They were, therefore, expected to develop institutional arrangements which would best reflect local circumstances and needs, while also meeting EU standards for managing public funds.

PHARE

From 2000, PHARE was aimed at helping the accession countries to prepare for accession, the budget being increased to EUR 1.6 billion a year with a focus on three main priorities:

- institution building (30%),
- investment in the regulatory infrastructure required to ensure compliance with the *acquis communautaire* (35%),
- support for economic and social cohesion (35%).

After the 10 new Member States enter the EU in May 2004, they will continue to receive PHARE assistance for at least three years, while in Bulgaria and Romania the programme might continue beyond this.

ISPA

ISPA corresponds broadly to the Cohesion Fund and supports investment in transport systems and environmental infrastructure, both of which were neglected for decades before the transition began and neither of which meets the needs of a modern economy. As regards transport, priority is given to major routes, defined in the Transport Infrastructure Needs Assessment study (TINA), which link the accession countries to current Member States, while aid for environmental improvement is focused on water supply and the treatment of waste water and solid waste.

Support, amounting to a total of just over EUR 1 billion a year, is given only to projects of above EUR 5 million. In 2000 and 2001, the first two years of implementation, great efforts were made to prepare eligible projects and the administrative structures necessary for implementation. By the end of 2002, 249 projects with ISPA commitments of EUR 3.2 billion had been approved by the Commission, divided fairly equally between transport and the environment, and within transport between road and rail, with most projects aimed at renovating and modernising existing infrastructure.

Increasingly, the countries have selected projects in line with national strategies on transport and the environment in order to make best use of the limited resources available.

ISPA has also contributed to building know-how and administrative capacity, which has been supported by technical assistance on training on procurement procedures, financial management, project preparation, the preparation of technical documentation, cost-benefit analysis and the use of the Commission's Extended Decentralised Implementation System (EDIS).

SAPARD

SAPARD allocates EUR 500 million a year to help accession countries to implement the *acquis communautaire* in respect of the CAP and to restructure their agricultural sectors and rural areas. Support is based on development plans drawn up by the countries which include a limited number of measures, such as improving arrangements for ensuring quality, applying veterinary and plant health controls or setting up producer groups and land registers. The balance of support for different measures varies between countries, though a large part goes to investment in processing and marketing (26% of the total) and in agricultural holdings and rural infrastructure (a further 20% or so).

Despite slow implementation[17], SAPARD has had a positive effect in the accession countries by encouraging them to set up financial structures and control systems similar to those in existing Member States, so helping to build up administrative capacity.

Lessons from the National Development Plans

The challenge of transition

For the accession countries, the first programming period when they will be eligible for aid from the Structural Funds is a relatively short one from 2004 to 2006. It represents both an opportunity for defining a coherent regional development strategy and a challenge for integrating the principles of EU structural policy into their national policy framework and establishing the appropriate mechanisms for implementation.

For this first short programming period, it has been agreed to concentrate structural intervention on a limited number of priority areas so as to achieve maximum impact and simplify implementation. In the four largest new Member States (Poland, Hungary, the Czech Republic and Slovakia), assistance will be implemented through a Community Support Framework, accompanied by Operational Programmes, and in the other countries, through a Single Programming Document.

The total support involved, including from the Cohesion Fund, amounts to just over EUR 7.3 billion a year,

at 1999 prices. This increases with national government co-financing, which itself represents a significant increase over existing levels, posing new challenges for public budgets, already depressed in a number of countries over recent years by relatively slow growth (Table A4.11).

Emerging strategies

The overriding objective in all accession countries is to achieve and sustain high rates of economic growth in order to increase living standards and levels of employment. The national development plans differ significantly in terms of the allocation of support to areas of intervention, reflecting variations in social and economic circumstances and perceived priorities. The share of funding going to investment in infrastructure, therefore, varies from 19% in Slovenia to 78% in Cyprus, that going on education, training and other programmes, from 14% in Malta to 28% in Slovenia and on productive investment, from 14% in the Czech Republic to 54% in Slovenia, much of it going to SMEs.

The programming documents prepared by the countries identify and address some of the main development needs, which is important given that the Structural Funds and national co-financing between them are likely to amount to around 25% of all public expenditure on structural investment. The overall approach to growth set out in the documents is in line with the Lisbon strategy. In Poland, Hungary and the Czech Republic, Operational Programmes for regional development have been designed, with central and regional authorities sharing responsibility for implementation, and a significant proportion of the overall budget has been allocated to these.

Nevertheless, the programmes for most countries identify a large number of different areas for intervention and too often lack a clear focus and strategic vision. The experience of current Member States indicates that, unless rectified, this will complicate the implementation of programmes and reduce their impact and sustainability.

The analytical methods and information sources used need, themselves, to be developed further to ensure higher quality programmes after 2006. For many programmes, there is only limited analysis of the interaction between the Structural Funds and national policies, while horizontal themes, such as the environment and equal opportunities, are not sufficiently integrated.

The formulation of programmes was supported in all the countries by *ex ante* evaluations of their effect, mostly carried out by teams of external experts. According to these, the Community Support Frameworks are estimated to increase GDP by around 4% in Hungary and just over 3% in Poland, once multiplier effects are taken into account (ie GDP will end up higher by this amount than it otherwise would have been), while investment in Hungary is estimated to be raised by 8% of GDP and unemployment in Poland reduced by almost 2% of the labour force in 2007.

The challenge of implementation

The Structural Funds require careful preparation in terms of the setting up of the necessary administrative structure and arrangements for managing the finance received. These preparations were begun some time ago during the negotiations on the accession Treaties.

During the preparatory stage, the accession countries have made visible progress in establishing more efficient cooperation between different parts of their administrative authorities, leading to more coordinated and effective programmes. Extensive efforts have been made to train staff, especially in the relevant ministries and implementing agencies, while improvements have been made in many regional and local authorities. The implementation of the Structural Funds, however, will affect many different parts of the administration in the accession countries, from strategic planning units in central governments to local authorities responsible for the selection of individual projects. The issue of administrative capacity is likely to remain a major concern throughout the 2004–2006

period and after. A further strengthening of this, which will partly come from experience, will be a necessary condition for further decentralisation of the implementation of programmes after 2006.

As a general conclusion, the programme documents and the activities planned reflect the transitional nature of the 2004–2006 period, preparing the ground for the strategies to be followed and the structures for implementing them in the next programming period.

The challenge ahead in the accession countries

While it is tempting to regard the accession countries as a single entity with uniform characteristics and problems, this is far from being the reality. Although structural problems are both acute and wide-ranging almost everywhere, with much of the basic infrastructure, in particular, being worn out, obsolete or non-existent, the nature and scale of these problems differ substantially between countries and regions. This is reflected in variations in GDP per head, which are wider than in the existing EU15 both between countries and the regions within these. More relevantly, disparities of all kinds tend to be much wider than across existing Objective 1 regions. This has important implications for the design of structural policy. For each region, the aim has to be to try to identify the major deficiencies which limit competitiveness and deter inward investment, to give priority to tackling these first so as to achieve a high rate of growth as soon as possible.

Regional disparities, moreover, are tending to widen further rather than narrow, with development being concentrated in and around major cities, especially the capitals, which are the focal points for the growth of new activities, particularly in services. This tendency is being reinforced by the parallel concentration of foreign direct investment in the same locations, attracted by the services, facilities and labour skills which are available there.

Communication links, however, are largely inadequate in all of the countries. In consequence, the scale of commuting, even to capital cities, is substantially smaller than in existing Member States (under a third of the size). Improvement in communications has to be a major priority, not only to make development possible but also to facilitate the expansion of trade between regions and countries. At present, trade among the new Member States remains depressed, despite them being natural trading partners, and needs to expand greatly to underpin their joint growth. Although they will gain from the planned extension of the trans-European transport network, the new routes planned are designed largely to connect them with existing Member States rather than with each other.

Achieving a **more dispersed pattern of growth** is constrained by the relatively low density of population in many regions and the absence of cities of any size which might attract investment and act as centres for economic development. Only in Poland are there several large cities (of over 250 thousand people) which might serve as growth poles in addition to the capital. In 8 of the 41 NUTS 2 regions in the new Member States (5 in Poland, two in Slovakia and one in the Czech Republic), there are no cities with more than 100 thousand people and most of the population live in towns or villages with less than 20,000 inhabitants. This pattern of settlements, combined with the prevailing structure of economic activity, is liable to constrain development unless there are good transport links between towns to enable people to travel easily from one to another either to commute to work or to access services and facilities, which might be shared among a number of small towns.

While improving transport networks is essential for sustained development, it needs to be achieved without excessive damage to the **environment**, particularly since decades of neglect of the damage caused by industrial activity has already left a legacy of degraded areas. Given the lack of motorways and the poor state of roads generally, any transport improvement policy has to include a relatively large-scale programme for the construction of new roads and the widening of existing ones. Nevertheless, environmental — and congestion — considerations mean that there is a parallel need to strengthen the rail network in order to limit the shift from rail to road. This means improving the state of track, electrification and increasing double-track lines as well as ensuring inter-operability between countries (by fully standardising track gauges and electricity supply systems).It also means taking explicit account of variations in local circumstances so as to design a coordinated transport policy — something which is lacking in a number of existing Member States — which achieves development objectives in the region concerned while minimising environmental damage.

Transport improvements, however, are not enough on their own. They have to be part of a coherent development policy which gives due weight to reforming **education and training systems** so that they are attuned to labour market needs, which, like transport requirements, tend to differ from region to region reflecting the pattern

of economic activity. Although education levels are ostensibly high, in the sense that more people of working age than in the EU15 have qualifications beyond basic schooling, education and training programmes do not equip young people for employment in the new economy which is emerging. Moreover, relatively few people go on to complete tertiary education, while once in employment, the opportunities for continuing training — for lifelong learning — are limited.

Support for **productive investment** is equally important, especially given the large-scale changes in the structure of activity which have to take place and which again vary across the countries reflecting the prevailing pattern. (Agriculture accounts for 19% of employment in Lithuania and Poland,, 5% in the Czech Republic; 17% of employment is in business and financial services in Prague and Bratislava, 3% in parts of Poland.). Support for business investment, however, is difficult to organise effectively in a context where most firms in expanding service sectors are still very small (under 10 people) and where business services are largely lacking. This is particularly the case in regions where the service sector is most under-developed and where the need for restructuring is most acute.

Help in strengthening **innovative capacity** needs to be an important aspect of the support provided to business, along with the establishment of advisory services and financial assistance for business development. Again, the need for this differs between regions, reflecting the variation in the scale of expenditure on R&D, the presence of research centres and the extent of linkages between these and local business. (R&D expenditure, for example, varies from 1½% of GDP in Slovenia, and almost 4% in Stredni Cechy, the region surrounding Prague, to under ½% of GDP in Latvia, Bulgaria and Romania and only around 0.2% or less in a number of regions in Poland, Hungary and Bulgaria.)

Identifying structural needs, however, is only the first stage in the formulation of regional development strategies. All of these needs cannot be tackled simultaneously. It is equally important to identify a list of priority areas for action, to determine the order that investment projects are undertaken in the light of the long-term economic development path which it is intended to follow in the region concerned and with due regard to the interactions between them, in order to maximise their effect on growth.

A central dilemma for policy-makers, which applies to all of the countries but especially the larger ones, is how far structural assistance should be concentrated on the main growth centres where returns from investment are likely to be most immediate and how far it should be dispersed across regions according to need. While strengthening the regions which are already the most competitive might give the best chance of achieving high growth in the short-term, allocating support according to need may be more likely to improve internal cohesion and secure balanced development in the long run. The choice is complicated, on the one hand, by the fact that for the weaker regions to gain significantly from the first type of strategy over the longer term, they are likely to require minimum levels of infrastructure and other forms of capital, implying that their needs cannot be neglected even in the short-term. On the other hand, it has to take account of the administrative constraints which exist on injecting large amounts of assistance into the least developed regions.

The latter point cannot be ignored. Regional development policy, it has to be recognised, is being implemented in a context in which the extent of **administrative capacity** to design and manage it is questionable, experience and expertise in tackling structural problems are inadequate and the means of coordination between the different authorities concerned are lacking. This inevitably constrains the programmes which can be implemented. It means that the provision of funding for structural investment has to be combined with ongoing support for improving administration on the ground, for training personnel and for developing effective means for managing, coordinating, monitoring and evaluating programmes, especially at regional level.

The debate on the future of cohesion policy

The Commission launched a debate on the future of the cohesion policy as early as the start of 2001. The College of Commissioners was also involved in this debate. The President of the Commission and some of the Commissioners were present in various conferences. The College has been kept abreast of all the issues raised during the debate through the series of reports that it has adopted over this period.

On 31 January 2001, the Commission adopted the Second Report on economic and social cohesion [COM(2001) 24 final]. The report analysed for the first time the challenges posed by enlargement and opened a discussion on the outlines of cohesion policy after 2006.

On 21 and 22 May 2001, the Commission held the second European forum on cohesion with a large number of participants (almost 2 000 registered and 1 700 others present) and political participation at a very high level.

At the 'General Affairs' Council on 11 June 2001, the Commission took note of the concern expressed by current and future Member States, in particular the memorandum presented by the delegation of Spain dealing with the effects of enlargement on economic and social cohesion. The Commission also declared that it would continue its work and regularly report to the Council. It would prepare the Third Report on Cohesion with a view to making appropriate proposals for cohesion policy after 2006.

Several Member States and representatives of the regions, towns and cities and the social partners were quick to give opinions on the issues in the debate. In line with the commitment given in June 2001, the Commission adopted two progress reports on economic and social cohesion, on 30 January 2002 [COM(2002) 46 final] and 30 January 2003 [COM(2003) 34 final]. These documents updated the data in the Second Report on Cohesion (January 2001), especially those relating to economic and social disparities between regions.

The Commission held a number of discussion meetings in which a great many of those responsible for policy in this area from Member States, regions and towns and cities were involved:

- on 26 and 27 May 2002, a seminar on the Union's priorities for the regions, with about 600 participants;
- on 8 and 9 July 2002, a seminar on urban areas;
- on 30 September 2002, a seminar on priorities for employment and social cohesion;
- on 9 October 2002, a meeting of the ministers responsible for regional policy which reached broad agreement on simplifying the implementation of the Structural Funds for the 2000–2006 period.
- on 17 and 18 October 2002, a seminar on mountain areas;
- on 3 and 4 March 2003, a seminar on future management of the Structural Funds;
- on 8 July 2003, a conference on "Cohesion and Constitution: the role and responsibilities for the regions", attended by over 180 chief executives of regions and local/regional elected representatives from Member States and accession countries.
- on 13 November 2003, a conference on the future of rural development policy in Salzburg

More recently, the Commission's Directorate-General for Regional Policy has placed on its Internet site all the contributions received from Community Institutions, Member States, new Member States, regions, towns and cities, regional organisations, the social partners and research institutes:

http://europa.eu.int/comm/regional_policy/debate/reflex_en.htm

Over a hundred contributions are readily accessible there, taken largely from debates, seminars, inter-ministerial sub-committees and various studies. Together they represent an unprecedented collective effort to debate an area of Union policy.

Commission representatives have taken part in hundreds of meetings, conferences and seminars held throughout the Union on this subject. The Commission has also received hundreds of delegations to discuss the issues involved.

Three informal meetings of Ministers responsible for regional policy were organised by the Belgian Presidency (Namur, 13 and 14 July, 2001), the Greek Presidency (Halkidiki, 16 May, 2003) and the Italian Presidency (Rome, 20 October, 2003). Another ministerial meeting will take place on the initiative of the Irish Presidency on the 27 and 28, February, 2004.

A rich debate has also taken place in the European Parliament, ending with the adoption of several resolutions on cohesion policy, including:

- on 7 November 2002, a resolution on the Schroedter report (Green Party, Germany)
- on 3 September 2003, resolutions on the Mastorakis report (European Socialist Party, Greece) and Pomés Ruiz report (European People's Party, Spain).

The Committee of the Regions adopted a declaration, in Leipzig on 5 and 6 May 2003, calling on the European institutions to strengthen EU' policy on regional development. The Committee also adopted two important opinions on this issue on 2 July 2003:

- the Schneider report on the Second Progress Report on Economic and Social Cohesion;
- the joint outlook report of Mr Fitto (European People's Party, Italy) and Mr Van Cauwenberghe (European Socialist Party, Belgium) on the governance and simplification of the Structural Funds after 2006.

The European Economic and Social Committee has also contributed to the debate of the future of cohesion policy by adopting opinions on the two Progress Reports and two exploratory opinions on 25 September, 2003 on:

- the Barros-Vale report on "Partnership for the implementation of the Structural Funds";
- the Dassis report on "The contribution of other Community policies to economic and social cohesion".

1 Excluding Denmark and Luxembourg as well as the UK for which satisfactory information is still awaited.

2 The main means by which the EIB assists regional development is through individual loans for large projects or programmes, and through global loans to financial intermediaries for smaller schemes. The European Investment Fund (EIF) for the development of SMEs invests in venture capital funds and provides portfolio guarantees through credit enhancement, credit insurance or structured transactions. EIB lending activities tend to complement grants from the Structural Funds, with a view to maximising the impact of budgetary and capital market resources.

3 These studies have put forward numerous explanations for convergence and have come up with a range of estimates of the effect of cohesion policies, in part depending on the time period, countries or regions examined or on the available data and technical specifications of the model used. Most of them follow the 'common' approach of measuring regional convergence in relation to the national or EU average.

4 Carried out using the Hermin macroeconomic model, which was constructed at the beginning of the 1990s and which has since been used largely to estimate the effect of Community support policy.

5 Defined here as interventions under the Community Support Frameworks (CSF) which coordinate EU regional activities involving the Structural Funds and public co-financing expenditure.

6 While the estimate of gross jobs created is relatively firmly based, the estimate of net jobs is inevitably uncertain given the difficulty of taking account of displacement and substitution effects. There is also some difficulty in isolating the effects of Community programmes from those of national policy measures implemented at the same time.

7 Because of data problems, it is difficult to obtain reliable figures for the programming period 1994 to 1999.

8 In the 2000–2006 period, the MEDOC ("Méditerranée occidentale") programme was initiated under INTERREG IIIB covering regions in Portugal, Spain, France, Italy and Greece (from 2003), as well as Gibraltar, with an overall contribution from the ERDF of some EUR 119 million. The general aim is to encourage cooperation between these regions in four broad areas (economic development, territorial planning, transport and ICT, and environmental protection), to strengthen relations with other Mediterranean countries and to include them in the projects undertaken.

9 Surveys carried out in a sample of programme areas across the EU found that 68% of respondents felt that the urban environment had improved or greatly improved over the past 10 years and 49% considered URBAN target areas had become more desirable as places to live.

10 Around EUR 16 billion are explicitly devoted to urban policy in the 2000-2006 period (around 14% of the Structural Funds). More than EUR 15 billion of this is provided under the mainstream programmes of Objectives 1 and 2, aimed mainly at regenerating city centres. In addition to these specific measures, almost all programmes are implemented to a large extent within cities without being labelled as "urban" measures. These cover all aspects of city development, including investment in infrastructure, support for SME and social inclusion activities.

11 6 Regional technology plans were launched in 1993-1994, 33 regional innovation strategies (RIS) in 1996, followed by 25 RIS+ (implementation of RIS) in 1999. These were based on a methodology proposed by the Commission. 30 of these projects are described and analysed in "Regional Innovation Strategies under the ERDF Innovative Actions 2000-2002", European Commission, DG for Regional Policy, 2002.

12 6 RISI regions were launched in 1994, followed by 22 RISI pilot actions in 1996, and a dozen RISI+ in 1999.

13 Communication "on the simplification, clarification, coordination and flexible management of the structural policies 2000-2006", C(2003) 1255.

14 "Managing structural funds in the future: which division of responsibility?", Brussels, 3-4 March 2003.

15 In the 2000-2006 period, after an advance of 7%, payments are made only after expenditure has actually been incurred, while in the previous period, Member States could receive advance payments up to a certain limit providing that they could certtify that previous advances had in part been spent.

16 Debate at the 5th Conference on Evaluation of the Structural Funds, Budapest, 26/27 June 2003.

17 The number of projects for which contracts with beneficiaries had been issued rose from 2,100 at the end of 2002 to over 4,300 at the end of April 2003. The EU budget committed to these projects corresponds to over 80% of the amount made available to the countries for the first year. At the end of 2002 only 40% of this amount was committed to final recipients. The total amount of payments amounted to over EUR 201 million by the end of May 2003.

Sources

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Human capital in a global and knowledge based economy, Angel de La Fuente and Antonio Ciccone, May 2002

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Relocation and European Integration. Is Structural Spending justified? K.Midelfart-Knarvik, H. Overman, Economic Policy, October 2002

Regional Policy in the European Union, R. Leonardi, 2003.

Statistical annex to Part 4

A4.1 Structural Fund allocation by objective and country, 2000-2006

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	EU15
Allocation 2000-2006 (EUR million at 1999 prices)																
Objective 1	0	0	19229	20961	37744	3254	1315	21935	0	0	261	16124	913	722	5085	127544
Phasing-out	625	0	729	0	352	551	1773	187	0	123	0	2905	0	0	1167	8411
Objective 2	368	156	2984	0	2553	5439	0	2145	34	676	578	0	459	354	3989	19735
Phasing-out	65	27	525	0	98	612	0	377	6	119	102	0	30	52	706	2718
Objective 3	737	365	4581	0	2140	4540	0	3744	38	1686	528	0	403	720	4568	24050
Other*	245	274	1748	858	2250	1273	159	1247	15	620	379	733	316	375	1061	11552
Total Structural Funds	2038	822	29797	21820	45137	15669	3247	29636	92	3223	1848	19762	2120	2223	16576	194010
Cohesion Fund				3060	11160		556					3060				17836
Total	2038	822	29797	24880	56297	15669	3803	29636	92	3223	1848	22822	2120	2223	16576	212010
Total (% of GDP in 2000 at 1999 prices)	0.1	0.1	0.2	2.9	1.4	0.2	0.6	0.4	0.1	0.1	0.1	2.9	0.2	0.1	0.2	0.0
Population covered (% of total)																
Objective 1	0.0	0.0	17.3	100.0	58.5	2.7	26.6	33.6	0.0	0.0	3.4	66.6	21.0	10.6	8.6	22.3
Phasing-out	12.6	0.0	1.6	0.0	1.3	1.9	73.4	0.6	0.0	1.8	0.0	33.4	0.0	0.0	3.5	3.4
Objective 2	12.5	10.2	12.6	0.0	22.2	31.3	0.0	12.9	28.3	15.0	24.8	0.0	30.9	13.0	23.4	18.1
Objective 3	87.4	100.0	81.1	0.0	40.2	95.4	0.0	65.8	100.0	98.2	96.6	0.0	79.0	89.4	87.9	74.3
Allocation per year per inhabitant (EUR)																
Objective 1	:	:	194.1	285.8	232.2	282.7	194.7	162.3	:	:	135.3	348.2	121.1	104.1	143.0	217.4
Phasing-out	69.5	:	80.2	:	95.3	70.7	95.2	80.7	:	63.2	:	125.3	:	:	81.9	93.6
Objective 2	41.4	41.4	41.4	:	41.4	41.4	:	41.4	41.4	41.4	41.4	:	41.4	41.4	41.4	41.4
Objective 3	11.9	9.9	9.8	:	19.2	11.3	:	14.2	13.0	15.8	9.7	:	14.2	12.3	12.6	12.3

** Community initiatives, non-Obj. 1 FIFG (Financial Instrument for Fisheries Guidance), Peace*
Source: DG REGIO

A4.2 Leverage effect of Structural Funds on public and private expenditure under Objective 1, 1994-1999 and 2000-2006

EUR

	1994-1999*		2000-2006	
	National public funds per euro of SF	Private funds per euro of SF	National public funds per euro of SF	Private funds per euro of SF
BE	0.77	1.18	1.02	1.43
DE	0.37	1.53	0.58	0.02
EL	0.52	0.28	0.50	0.48
ES	0.51	:	0.52	0.04
FR	0.54	0.23	0.88	0.33
IE	0.43	0.34	0.76	0.25
IT	1.40	:	0.89	0.45
NL	2.49	1.42	2.15	0.55
AT	1.59	3.79	0.33	1.76
PT	0.42	0.30	0.60	0.46
UK	0.53	0.24	0.85	0.43
Total EU11	0.62	0.36	0.63	0.29

** based on actual expenditure 1994-2000*
ES, IT: for 1994-1999, national public funds include private funds
EU11: excluding FI, SE
Source: DG REGIO

A4.3 EIB lending, 1989-2002

EUR billion

	1989-93	1994-99	2000-02
Total lending in EU15	70.9	128.9	95.3
Regional development, of which	47.2	86.7	59.3
Individual loans	37.8	66.6	40.7
Global loans	9.4	20.1	18.6
Annual average, of which	9.4	14.4	19.8
Objective 1	5.0	6.8	10.5
Objective 2	3.4	5.5	6.6
Mixed and other	1.0	2.1	2.7
Total lending in accession countries, of which	1.7	9.3	9.2
Individual loans	1.3	8.4	7.8
Global loans	0.4	0.9	1.4
Annual average	0.3	1.6	3.1

Source: EIB and European Commission

A4.4 Objective 1: indicative breakdown of Structural Funds by category of expenditure, 2000-2006

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	Total EU	Total by category
																EUR million	*%*
Productive environment	**368**	**0**	**8041**	**4587**	**10693**	**1298**	**910**	**9838**	**0**	**57**	**190**	**6368**	**596**	**457**	**2500**	**45903**	**33.8**
Agriculture	30	0	869	985	1543	244	122	1609	0	1	17	1165	83	72	135	6874	5.1
Forestry	3	0	98	127	884	55	32	249	0	0	5	391	23	6	33	1905	1.4
Rural development	8	0	2343	1099	2328	380	42	1552	0	11	14	773	80	53	205	8892	6.5
Fisheries	2	0	0	293	0	68	99	185	0	6	1	210	6	11	102	984	0.7
Assistance to large businesses	38	0	602	133	1084	80	0	235	0	3	23	123	75	0	157	2553	1.9
Assistance to SMEs & craft	152	0	2370	953	2368	231	306	2103	0	22	76	2638	201	179	1248	12849	9.5
Tourism	40	0	235	585	546	152	56	1404	0	8	36	389	8	42	206	3706	2.7
RTD	96	0	1524	410	1940	87	252	2501	0	6	19	678	119	94	412	8138	6.0
Human resources	**190**	**0**	**5902**	**3975**	**8858**	**1237**	**844**	**4005**	**0**	**31**	**48**	**3868**	**259**	**149**	**2014**	**31378**	**23.1**
Labour market policy	4	0	1994	766	4162	99	50	1140	0	17	29	397	67	13	493	9231	6.8
Social inclusion	27	0	1218	729	531	206	210	208	0	11	3	673	19	18	384	4237	3.1
Positive labour market action for women	0	0	546	345	240	25	10	384	0	1	2	51	19	19	96	1737	1.3
Education & vocational training	61	0	935	1411	1248	787	409	1552	0	1	1	2473	65	21	510	9473	7.0
Entrepreneurship	99	0	1209	724	2678	120	165	722	0	3	12	273	89	77	530	6701	4.9
Infrastructure	**62**	**0**	**5664**	**11841**	**18363**	**1216**	**1319**	**7470**	**0**	**30**	**16**	**8433**	**44**	**102**	**1608**	**56169**	**41.3**
Transport	9	0	3102	6497	9128	439	954	3134	0	3	0	3211	11	33	465	26986	19.8
Telecommunication & information society	6	0	177	1496	802	94	104	1103	0	7	8	496	11	56	363	4723	3.5
Environment	43	0	2373	2190	6405	451	218	2721	0	18	4	2429	7	6	569	17433	12.8
Energy	5	0	11	411	287	43	44	269	0	1	4	469	7	3	109	1663	1.2
Social & health	0	0	0	1247	1740	189	0	243	0	3	0	1827	8	4	102	5363	3.9
Other	**5**	**0**	**353**	**559**	**182**	**54**	**15**	**809**	**0**	**3**	**7**	**360**	**14**	**14**	**130**	**2504**	**1.8**
TOTAL	**625**	**0**	**19959**	**20961**	**38096**	**3805**	**3088**	**22122**	**0**	**123**	**261**	**19029**	**913**	**722**	**6252**	**135955**	**100.0**
Share of total Obj. 1 allocation (%)	0.5	0.0	14.7	15.4	28.0	2.8	2.3	16.3	0	0.1	0.7	0.2	0.5	4.6	14.0	100.0	

Source: DG REGIO

A4.5 Structural Fund expenditure on transport under Objective 1, 2000-2006

	% of total
Roads	33.1
Rail	29.4
Motorways	16.5
Urban transport	6.1
Ports	6.1
Multimodal transport	3.9
Airports	2.4
Other	2.0
Waterways	0.4
Intelligent Transport Systems	0.3
Total	100.0

Source: DG REGIO

A4.6 *Ex post* macroeconomic effects of structural policy 1994-1999: HERMIN simulation results

	% difference from baseline without policy in 1999					
	Greece	Spain	Ireland	Portugal	E. Germany	N. Ireland
GDP	2.2	1.4	2.8	4.7	3.9	1.3
Manufacturing output	3.4	3.7	4.7	10.6	3.2	0.6
Market services output	2.4	1.2	2.4	4.8	4.4	2.2
Fixed investment*	18.1	9.1	1.,1	24.8	7.8	1.2
Labour productivity*	2.3	2.1	2.2	6.6	1.2	0.5
Employment*	1.0	1.5	4.7	3.7	2.0	0.1

** only manufacturing sector*
Source: DG REGIO

A4.7 Effect of structural policy on physical infrastructure and human capital, 1994-2010: HERMIN simulation results

% difference from baseline without policy in 2010

Years	Greece		Spain		Ireland		Portugal		East Germany		Nothern Ireland	
	Physical	Human	Physical	Human	Physical	Human	Physical	Human	Physical	Human	Physical	Human
1993	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1994	1.1	1.0	1.2	0.7	1.1	1.5	3.5	3.8	0.9	0.4	0.1	0.3
1995	2.7	1.9	2.3	1.4	2.3	2.9	6.3	7.2	1.6	0.8	0.2	0.5
1996	3.9	2.7	3.3	2.0	3.3	4.1	8.8	11.0	2.3	1.2	0.4	0.8
1997	4.9	3.5	4.3	2.6	4.3	5.5	11.0	14.2	2.9	1.5	0.5	1.0
1998	6.0	4.1	5.4	3.4	5.1	6.6	13.2	17.4	3.5	1.8	0.6	1.2
1999	7.0	4.8	6.5	4.0	5.8	7.6	15.3	20.5	4.0	2.1	0.7	1.4
2010	4.8	2.8	4.6	2.1	2.5	4.1	8.7	11.5	2.0	1.2	0.6	0.8

Source: DG REGIO

A4.8 Trade effects of Objective 1 intervention, 2000-2006

	Leakage to EU countries* (% of Obj. 1 intervention)	Leakage to non-EU countries* (% of Obj. 1 intervention)
Greece	42.6	3.8
Spain	14.7	13.2
Ireland	26.7	11.1
Portugal	35.2	6.7
New Länder	18.9	9.4
Mezzogiorno	17.4	8.6
Total	24.3	9.1

** Imports as % of expenditure under the Structural Funds*
Source: Eurostat, Input-output tables

A4.9 Non-Objective 1: indicative breakdown of Structural Funds by category of expenditure, 2000-2006

	BE	DK	DE	EL	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK	Total EU	Total by category
																EUR million	*%*
Productive environment	**451**	**153**	**2806**	**294**	**2177**	**3361**	**70**	**1605**	**21**	**573**	**770**	**309**	**442**	**414**	**3469**	**16913**	**29.1**
Agriculture	29	0	28	45	30	42	3	18	0	0	3	26	11	12	0	246	0.4
Forestry	28	0	3	3	17	13	1	5	0	0	1	9	3	1	0	83	0.1
Rural development	14	25	317	144	560	443	51	247	2	187	84	182	71	63	211	2601	4.5
Fisheries	3	0	0	8	0	18	2	3	0	1	0	5	1	2	5	46	0.1
Assistance to large businesses	41	11	158	3	58	196	0	9	3	7	147	3	10	2	13	662	1.1
Assistance to SMEs & craft	159	39	1489	50	621	1324	7	867	3	265	265	60	202	222	2884	8456	14.6
Tourism	103	43	344	30	58	785	1	328	3	92	137	9	40	56	139	2168	3.7
RTD	73	35	467	11	832	511	6	104	10	21	132	15	103	56	219	2594	4.5
Other	0	0	0	0	0	30	0	25	0	0	0	0	0	0	0	53	0.1
Human resources	**683**	**597**	**5700**	**206**	**3280**	**5831**	**53**	**4367**	**46**	**2149**	**710**	**204**	**594**	**902**	**5641**	**30963**	**53.3**
Labour market policy	165	235	2387	45	1025	1074	7	1429	18	808	264	10	149	193	1269	9075	15.6
Social inclusion	222	142	1145	30	441	1496	14	266	15	745	140	53	81	146	1634	6571	11.3
Positive labour market action for women	108	0	581	20	298	342	2	451	2	21	83	19	41	63	366	2398	4.1
Education & vocational training	84	54	542	48	216	1545	18	1191	5	505	102	60	136	152	1418	6076	10.5
Entrepreneurship	105	166	1046	63	1300	1373	11	1030	6	71	121	62	187	349	954	6843	11.8
Infrastructure	**225**	**41**	**998**	**327**	**1523**	**2259**	**32**	**1113**	**24**	**340**	**69**	**203**	**130**	**136**	**779**	**8198**	**14.1**
Transport	22	5	191	169	501	593	21	251	1	38	8	73	29	52	82	2037	3.5
Telecommunication & information society	94	20	74	40	68	287	3	98	1	58	15	11	32	40	165	1006	1.7
Environment	73	8	662	68	792	1123	7	696	16	228	29	60	65	35	478	4343	7.5
Energy	7	4	34	14	32	70	1	28	5	0	11	11	2	4	8	229	0.4
Social & health	9	3	15	36	130	72	0	40	0	15	6	46	1	6	45	424	0.7
Other	21	0	22	0	0	114	0	0	0	0	0	2	0	0	0	159	0.3
Other	**55**	**32**	**334**	**32**	**61**	**414**	**4**	**429**	**2**	**38**	**38**	**18**	**42**	**49**	**435**	**1981**	**3.4**
TOTAL	**1414**	**822**	**9838**	**858**	**7041**	**11864**	**159**	**7514**	**92**	**3101**	**1587**	**733**	**1208**	**1501**	**10324**	**58055**	**100.0**
Share of total non-Obj. 1 allocation (%)	2.4	1.4	16.9	1.5	12.1	20.4	0.3	12.9	0.2	5.3	2.7	1.3	2.1	2.6	17.8	100.0	

Source: DG REGIO

A4.10 Structural Fund appropriations for rural development, 2000-2006

	EAGGF — Guidance section		ERDF	
	EUR million	% of total	EUR million	% of total
Agriculture	6786	39.1	88	6.3
Forestry	1842	10.6	27	1.9
Promoting the adaptation of the development of rural areas	8712	50.2	1276	91.8
of which outside agriculture and forestry	2588	14.9	664	47.8

Source: DG REGIO

A4.11 Commitment appropriations under the Structural Funds in acceding countries, 2004-2006*

EUR million, 1999 prices

	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK	% of total
Objective 1	0	1286	329	1765	792	554	56	7321	210	921	61.0
Objective 2	25	63	0	0	0	0	0	0	0	33	0.6
Objective 3 (outside of Obj 1)	20	52	0	0	0	0	0	0	0	40	0.5
Fisheries Instrument (FIFG)	3	0	0	0	0	0	0	0	0	0	0.0
Interreg	4	61	9	61	20	14	2	196	21	37	2.0
Equal	2	28	4	27	11	7	1	119	6	20	1.0
Cohesion Fund	48	836	276	994	544	461	20	3733	169	510	35.0
Total	101	2328	618	2847	1366	1036	79	11369	405	1560	21708

** Breakdown per country is indicative*
Source: DG REGIO

A4.12 Indicative breakdown of commitment appropriations under the Structural Funds in acceding countries, 2004-2006

% of total

	CY	CZ	EE	HU	LT	LV	MT	PL	SI	SK
Basic Infrastructure		16.9	37.2	16.4	39.4	32.6		14.1		40.5
Competitiveness/Industry and Enterprise		17.9	19.7	21.5	25.3	25.0	60.0	15.2	57.5	14.5
Human Resource Development		21.9	20.5	28.2	18.3	21.2	17.0	17.8	31.9	27.2
Agriculture, Rural Development and Fisheries	67.5	12.0	18.7	15.9	15.3	18.5	11.0	16.7	9.9	17.7
Regional Development		31.2		18.0			10.0	35.9		
Urban Regeneration	30.0									
Other*	2.5		3.9		1.7	2.7	2.0	0.3	0.8	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

** including Technical Assistance*
Source: DG REGIO

Main regional indicators

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
EU15	**379604**	**117.0**	**2.5**	**100.0**	**100.0**	**109.7**	**4.0**	**28.2**	**67.7**	**153.6**	**64.2**	**55.6**	**72.9**
N10	**74745**	**101.7**	**4.8**	**46.1**	**45.5**	**50.5**	**13.2**	**32.1**	**54.7**	**6.9**	**55.9**	**50.1**	**61.9**
EU25	**454349**	**114.2**	**2.6**	**91.1**	**91.0**	**100.0**	**5.4**	**28.8**	**65.8**	**128.6**	**62.8**	**54.6**	**71.1**
N12	**105066**	**96.9**	**4.2**	**39.9**	**39.3**	**43.8**	**18.5**	**31.6**	**50.0**	**5.3**	**55.9**	**50.3**	**61.6**
EU27	**484670**	**112.0**	**2.6**	**87.0**	**86.8**	**95.4**	**7.0**	**28.9**	**64.1**	**120.5**	**62.4**	**54.4**	**70.4**
Belgique-België	**10281**	**336.9**	**2.4**	**106.9**	**106.4**	**117.3**	**1.7**	**25.4**	**72.9**	**151.5**	**59.9**	**51.4**	**68.2**
Reg. Bruxelles-Cap./Brussels Hfdst. Gew.	971	6015.5	2.6	217.3	217.8	238.5	0.1	13.1	86.9	161.4	54.5	48.2	61.0
Vlaams Gewest	5960	441.0	2.5	105.5	104.9	115.8	1.8	28.1	70.2	163.2	63.5	55.1	71.6
Antwerpen	1648	574.8	2.1	123.8	123.9	135.9	1.2	29.7	69.2	190.8	61.6	52.4	70.5
Limburg	796	328.8	2.3	89.9	89.4	98.7	1.6	32.9	65.5	84.8	61.1	51.3	70.5
Oost-Vlaanderen	1365	457.5	2.2	92.5	91.8	101.5	1.8	28.2	70.0	140.0	64.3	56.3	72.1
Vlaams Brabant	1020	484.3	3.7	112.5	110.5	123.4	1.6	18.4	80.0	259.7	66.5	59.6	73.3
West-Vlaanderen	1131	360.7	2.5	99.4	98.7	109.1	3.0	31.3	65.8	119.1	64.4	56.5	72.1
Région Wallonne	3351	198.9	1.9	77.3	77.1	84.9	2.1	23.5	74.4	79.5	54.8	45.6	64.1
Brabant Wallon	353	324.0	4.3	103.1	100.8	113.1	1.7	18.9	79.4	460.1	59.5	50.9	68.3
Hainaut	1280	338.0	1.4	69.1	69.1	75.9	1.7	25.4	72.9	65.8	52.0	42.6	61.5
Liège	1022	264.5	1.4	80.3	80.5	88.1	1.8	25.0	73.3	112.4	54.7	45.4	63.9
Luxembourg	250	56.2	1.7	74.8	75.9	82.1	4.6	22.4	73.0	116.8	60.5	50.2	70.4
Namur	447	121.8	2.5	75.2	74.8	82.5	2.2	20.0	77.8	85.2	56.4	47.5	65.2
Danmark	**5357**	**124.3**	**2.5**	**115.3**	**115.8**	**126.5**	**3.3**	**24.2**	**72.5**	**192.9**	**75.9**	**71.7**	**80.0**
Deutschland	**82339**	**230.6**	**1.6**	**100.4**	**102.0**	**110.2**	**2.5**	**32.4**	**65.2**	**296.2**	**65.4**	**58.8**	**71.8**
Baden-Württemberg	10561	295.4	2.2	114.0	115.9	125.2	2.1	39.9	58.0	536.7	69.9	62.8	76.8
Stuttgart	3950	374.1	2.4	125.6	127.1	137.8	2.1	41.7	56.2	655.8	70.7	63.2	78.0
Karlsruhe	2692	389.1	1.8	115.9	118.1	127.1	1.1	36.5	62.4	464.8	68.1	61.6	74.6
Freiburg	2146	229.4	2.3	99.4	100.9	109.1	2.7	39.2	58.1	475.0	69.6	62.7	76.5
Tübingen	1772	198.7	2.0	103.3	105.5	113.4	2.6	42.0	55.4	455.6	71.2	64.1	78.1
Bayern	12280	174.1	2.5	117.3	118.8	128.7	3.3	35.3	61.3	480.1	70.7	63.4	77.9
Oberbayern	4112	234.6	3.6	147.9	148.7	162.3	3.1	30.6	66.3	781.6	72.3	65.0	79.5
Niederbayern	1181	114.3	1.9	93.7	94.6	102.8	4.0	38.8	57.2	181.3	71.2	63.8	78.4
Oberpfalz	1082	111.7	2.5	100.0	102.6	109.8	5.0	38.9	56.1	376.3	69.2	61.5	76.7
Oberfranken	1113	154.0	1.1	96.7	98.6	106.2	3.0	42.0	55.0	241.6	69.2	64.2	74.1
Mittelfranken	1694	233.8	2.2	117.7	119.6	129.2	2.3	34.8	63.0	486.7	68.6	61.5	75.7
Unterfranken	1338	156.9	1.9	97.2	98.8	106.6	2.9	37.8	59.3	330.5	69.4	60.5	78.1
Schwaben	1760	176.1	1.4	100.2	103.2	109.9	3.9	37.2	58.9	309.0	71.5	64.1	78.7
Berlin	3386	3798.0	-1.0	89.9	92.5	98.6	0.6	19.3	80.1	193.0	60.1	57.6	62.6
Brandenburg	2597	88.1	2.2	67.0	68.3	73.5	4.2	28.4	67.4	72.7	61.9	58.8	64.9
Brandenburg - Nordost	1177	76.0	2.3	62.4	63.6	68.4							
Brandenburg - Südwest	1420	101.6	2.2	70.9	72.1	77.8							
Bremen	660	1633.6	1.5	135.7	136.5	149.0	1.1	25.2	73.7	92.4	60.7	55.0	66.5
Hamburg	1721	2278.6	1.8	170.7	173.3	187.3	0.9	20.5	78.5	203.5	64.9	60.2	69.6
Hessen	6073	287.6	2.0	123.6	125.2	135.7	1.6	30.3	68.1	362.9	67.5	61.0	73.8
Darmstadt	3742	502.7	2.2	142.3	143.9	156.1	1.4	28.9	69.8	477.1	68.5	61.9	74.9
Gießen	1064	197.7	1.8	91.1	92.0	100.0	2.0	32.9	65.1	259.5	66.4	59.8	73.0
Kassel	1267	152.8	1.4	95.9	98.1	105.2	2.2	32.7	65.1	115.5	65.4	59.4	71.2
Mecklenburg-Vorpommern	1768	76.3	1.2	65.9	67.3	72.3	7.4	25.8	66.8	39.7	58.9	55.8	61.9
Niedersachsen	7940	166.7	1.6	90.7	92.3	99.6	3.4	30.9	65.7	202.5	64.6	57.0	72.0
Braunschweig	1667	205.9	2.2	99.1	100.7	108.7	2.1	36.4	61.5	337.4	63.1	55.1	70.9
Hannover	2161	238.9	0.6	97.6	100.8	107.1	2.3	28.5	69.2	233.6	64.9	58.9	70.9

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
8.9	7.8	40.2	8.8	15.2	16.8	66.9	16.3	35.4	42.9	21.8	**EU15**
:	14.9	54.5	15.6	32.4	18.3	68.7	12.9	18.9	66.3	14.8	**N10**
:	9.0	44.3	10.0	18.1	17.1	67.2	15.7	32.6	46.7	20.6	**EU25**
:	13.7	55.5	14.0	30.6	18.2	68.6	13.2	21.8	64.0	14.2	**N12**
:	9.1	45.4	10.0	18.6	17.1	67.3	15.6	32.4	47.5	20.1	**EU27**
6.9	7.5	48.8	8.6	17.7	17.6	65.6	16.8	39.2	32.6	28.1	**Belgique-België**
9.3	14.5	55.1	14.4	32.9	17.8	65.4	16.8	36.8	25.9	37.3	Rég. Bruxelles-Cap./Brussels Hfdst. Gew.
4.9	4.9	35.2	5.7	11.6	17.1	66.2	16.7	37.9	34.3	27.9	Vlaams Gewest
5.7	5.5	44.0	6.2	10.8	17.2	65.9	16.9	37.4	35.3	27.4	Antwerpen
7.1	5.3	32.5	6.7	13.2	17.4	68.8	13.8	42.4	33.4	24.2	Limburg
4.7	5.5	31.8	6.2	14.5	16.6	66.3	17.1	39.0	33.1	27.9	Oost-Vlaanderen
3.8	4.0	31.0	4.5	10.4	17.1	66.1	16.8	31.5	33.9	34.6	Vlaams Brabant
3.8	3.8	29.8	5.0	9.0	17.0	64.9	18.1	39.9	35.2	25.0	West-Vlaanderen
9.8	10.5	58.6	12.6	26.5	18.6	64.6	16.8	42.5	31.7	25.8	Région Wallonne
5.8	7.0	40.5	8.4	20.7	19.7	65.6	14.7	26.6	31.8	41.5	Brabant Wallon
12.1	12.6	63.6	15.1	32.5	18.2	64.6	17.3	46.1	32.4	21.5	Hainaut
10.0	10.8	58.1	12.6	22.0	18.1	64.6	17.2	44.6	29.4	25.9	Liège
5.2	6.5	38.3	8.7	18.7	20.4	63.4	16.2	42.9	31.0	26.1	Luxembourg
8.8	9.4	61.0	11.6	27.4	19.0	64.7	16.3	39.4	35.3	25.2	Namur
8.3	**4.6**	**19.1**	**5.0**	**7.4**	**18.4**	**66.8**	**14.8**	**19.4**	**52.6**	**28.0**	**Danmark**
6.3	**9.4**	**47.9**	**9.1**	**10.7**	**15.7**	**68.1**	**16.3**	**17.0**	**60.7**	**22.3**	**Deutschland**
2.7	4.7	37.5	4.6	6.0	16.8	67.7	15.5	20.6	55.6	23.8	Baden-Württemberg
2.5	4.5	38.3	4.3	5.9	16.8	68.0	15.3	21.0	55.2	23.8	Stuttgart
3.0	5.4	37.5	4.8	7.5	15.9	68.1	16.0	19.3	56.7	24.0	Karlsruhe
2.8	4.5	40.7	4.4	5.9	17.1	67.0	15.9	20.2	57.5	22.4	Freiburg
2.5	4.5	31.7	4.9	4.6	18.0	67.2	14.8	22.1	52.7	25.2	Tübingen
2.8	5.0	37.3	5.0	5.7	16.4	67.6	16.0	19.4	59.4	21.3	Bayern
2.3	3.8	31.0	3.8	3.9	15.7	69.0	15.4	17.2	56.6	26.2	Oberbayern
3.1	5.1	38.4	4.8	7.2	17.1	67.0	15.9	20.4	62.6	16.9	Niederbayern
3.7	5.5	39.7	5.5	6.1	17.2	67.0	15.9	20.7	63.9	15.5	Oberpfalz
3.4	7.8	40.3	7.8	8.3	16.1	66.4	17.4	22.3	60.3	17.4	Oberfranken
3.1	6.1	43.6	6.0	6.5	16.0	67.7	16.4	21.0	56.9	22.0	Mittelfranken
3.0	5.7	41.6	6.0	6.8	17.1	66.8	16.1	19.0	61.9	19.1	Unterfranken
2.5	4.4	31.8	4.5	5.0	17.5	66.5	16.1	19.9	61.1	19.0	Schwaben
9.9	18.7	50.8	15.9	24.7	13.8	72.1	14.2	16.0	53.6	30.4	Berlin
13.8	20.4	53.8	21.3	20.7	14.1	71.1	14.9	6.4	65.6	28.0	Brandenburg
											Brandenburg - Nordost
											Brandenburg - Südwest
7.1	11.2	46.6	8.7	19.3	14.0	67.9	18.1	21.9	59.9	18.1	Bremen
5.2	9.0	44.4	7.8	10.9	13.5	69.8	16.7	19.8	57.0	23.2	Hamburg
3.5	6.3	45.1	5.6	8.5	15.5	68.3	16.2	18.2	58.7	23.2	Hessen
3.0	6.0	46.0	5.4	7.9	15.1	69.3	15.7	18.9	56.0	25.1	Darmstadt
4.1	5.9	36.5	5.0	8.0	16.4	67.4	16.2	17.9	61.5	20.6	Gießen
4.6	7.9	48.3	6.8	10.4	16.0	66.1	17.8	16.1	64.6	19.3	Kassel
17.6	23.6	52.2	23.7	18.0	14.5	71.0	14.5	10.5	62.5	27.0	Mecklenburg-Vorpommern
5.0	7.9	51.1	6.9	10.3	16.6	66.8	16.6	17.1	64.0	18.9	Niedersachsen
5.9	10.0	59.9	9.8	11.3	15.5	66.8	17.7	17.8	63.5	18.7	Braunschweig
4.8	8.0	49.5	6.4	10.4	15.4	67.1	17.5	16.0	64.9	19.2	Hannover

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
Lüneburg	1677	108.2	1.3	75.2	76.6	82.5	4.0	28.2	67.7	165.4	66.4	58.5	74.2
Weser-Ems	2434	162.7	2.2	89.6	89.8	98.3	4.8	31.3	63.9	106.8	64.0	55.5	72.3
Nordrhein-Westfalen	18027	529.0	1.2	101.5	103.3	111.3	1.4	32.8	65.8	284.3	63.2	55.0	71.5
Düsseldorf	5254	993.2	1.5	114.2	115.1	125.3	1.4	31.4	67.2	338.9	63.4	55.1	71.9
Köln	4295	583.2	1.1	107.3	110.3	117.8	1.0	29.2	69.8	361.5	63.4	54.8	72.1
Münster	2615	378.7	0.9	82.6	84.4	90.7	2.0	32.7	65.4	200.2	62.9	54.4	71.4
Detmold	2059	315.9	1.4	97.6	99.8	107.2	1.9	38.0	60.2	231.5	65.5	58.0	73.1
Arnsberg	3804	475.3	1.0	92.2	94.0	101.2	1.2	36.1	62.8	208.6	61.7	53.7	69.7
Rheinland-Pfalz	4041	203.6	1.3	90.0	91.7	98.7	2.5	32.5	65.0	315.7	67.0	58.8	75.0
Koblenz	1522	188.5	1.2	84.0	85.8	92.1	2.1	32.8	65.1	189.2	67.2	58.4	75.8
Trier	512	104.1	1.1	80.9	82.0	88.7	3.2	28.6	68.2	91.9	66.5	58.8	73.7
Rheinhessen-Pfalz	2007	292.9	1.3	96.8	98.6	106.2	2.7	33.2	64.1	468.4	67.0	59.0	74.8
Saarland	1067	415.3	0.8	92.7	93.7	101.7	1.4	33.0	65.6	153.5	61.9	53.5	70.1
Sachsen	4405	239.2	1.0	67.3	68.1	73.9	2.4	32.8	64.9	99.4	61.0	57.8	64.0
Chemnitz	1612	264.5	1.3	63.9	64.5	70.1	2.3	38.1	59.6	57.6	61.1	56.7	65.5
Dresden	1704	214.9	1.3	68.4	68.9	75.1	2.6	31.0	66.4	173.1	61.3	59.0	63.5
Leipzig	1088	248.1	0.3	70.6	72.0	77.4	2.1	27.7	70.2	45.7	60.1	57.6	62.6
Sachsen-Anhalt	2598	127.1	1.6	65.3	65.9	71.7	4.0	31.0	65.0	47.8	59.5	56.2	62.7
Dessau	539	125.8	0.8	60.1	60.5	66.0	3.3	33.8	62.9	28.0	57.6	54.2	60.9
Halle	858	193.6	1.4	68.3	68.8	74.9	3.0	31.5	65.5	63.1	56.9	53.6	60.1
Magdeburg	1202	102.4	2.1	65.6	66.3	72.0	4.9	29.5	65.7	45.8	62.2	58.9	65.5
Schleswig-Holstein	2796	177.4	1.3	92.1	94.2	101.1	4.0	23.5	72.5	147.6	65.8	59.1	72.4
Thüringen	2421	149.7	2.1	66.2	66.9	72.6	3.1	35.1	61.9	88.2	62.5	58.3	66.6
Ellada	**10938**	**83.1**	**3.5**	**67.1**	**66.3**	**73.7**	**16.1**	**22.5**	**61.5**	**7.3**	**56.7**	**42.5**	**71.4**
Voreia Ellada	3516	62.3	3.8	63.4	63.1	69.6	22.8	23.4	53.8	4.8	55.2	40.5	70.8
Anatoliki Makedonia, Thraki	600	42.3	2.9	53.4	52.9	58.6	35.5	20.0	44.5	0.6	58.6	46.6	71.4
Kentriki Makedonia	1881	100.0	4.2	67.1	66.5	73.6	16.2	24.9	58.9	8.3	54.2	39.3	70.1
Dytiki Makedonia	294	31.1	3.5	68.7	68.1	75.4	20.4	33.5	46.1	1.1	53.6	39.0	68.4
Thessalia	741	52.8	3.4	60.2	60.5	66.1	29.7	18.8	51.5	0.9	55.9	38.9	72.8
Kentriki Ellada	2425	45.0	3.2	66.0	62.8	72.4	30.3	19.7	50.0	2.4	57.7	42.2	73.2
Ipeiros	336	36.5	5.0	54.0	50.6	59.3	25.8	21.1	53.1	0.4	56.1	41.0	71.9
Ionia Nisia	210	91.1	4.6	59.9	58.9	65.8	23.2	12.5	64.4	0.0	57.7	43.6	72.3
Dytiki Ellada	723	63.7	2.3	52.7	51.7	57.8	32.8	17.0	50.2	5.5	55.0	38.9	71.6
Sterea Ellada	558	35.9	2.1	94.9	86.7	104.2	24.8	29.9	45.3	0.5	55.7	38.4	72.4
Peloponnisos	598	38.6	4.3	63.9	61.2	70.2	36.5	15.7	47.8	2.8	63.5	50.1	76.7
Attiki	3904	1025.1	3.4	71.2	71.3	78.1	1.2	24.5	74.3	14.0	57.0	44.1	70.7
Nisia Aigaiou, Kriti	1094	62.7	4.1	67.2	67.2	73.8	25.5	17.1	57.4	4.8	58.0	43.4	73.2
Voreio Aigaio	202	52.7	4.8	62.0	61.8	68.1	22.4	18.0	59.6	0.0	51.9	34.2	69.8
Notio Aigaio	296	56.1	4.9	76.5	76.6	83.9	7.1	21.8	71.2	2.4	55.5	38.0	74.4
Kriti	595	71.4	3.4	64.4	64.3	70.7	34.9	14.7	50.4	7.4	61.6	49.7	73.8
España	**40266**	**79.8**	**3.7**	**84.2**	**83.9**	**92.4**	**5.9**	**31.2**	**62.9**	**24.1**	**58.4**	**44.1**	**72.6**
Noroeste	4307	95.1	2.9	69.9	69.5	76.7	10.8	32.6	56.6	3.2	55.7	42.9	68.6
Galicia	2726	92.6	2.8	66.5	66.3	73.0	12.9	32.8	54.3	5.0	57.1	45.0	69.3
Principado de Asturias	1052	99.5	2.4	72.4	71.9	79.4	7.2	31.4	61.4	9.3	51.5	38.2	65.0
Cantabria	530	100.0	4.2	82.7	81.3	90.7	6.6	33.9	59.5	7.5	56.7	41.3	72.0
Noreste	4044	57.5	3.6	100.5	99.3	110.3	4.5	37.3	58.2	27.0	61.8	47.5	75.8
Pais Vasco	2068	284.9	3.9	105.1	103.6	115.4	2.0	37.9	60.1	35.4	61.1	48.1	74.0
Comunidad Foral de Navarra	541	51.9	3.6	106.2	106.2	116.5	6.6	37.5	55.9	49.6	64.4	50.0	78.2

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
4.3	6.9	46.7	6.3	12.0	17.1	66.8	16.1	15.8	63.1	21.0	Lüneburg
5.0	7.1	47.3	6.0	8.4	18.3	66.5	15.2	18.5	64.3	17.2	Weser-Ems
5.3	7.9	45.5	6.8	9.5	16.3	67.1	16.6	20.1	61.2	18.7	Nordrhein-Westfalen
5.8	8.0	46.5	6.8	9.3	15.5	67.3	17.2	20.9	61.1	18.0	Düsseldorf
5.1	7.0	47.1	6.2	8.0	16.1	68.2	15.7	19.9	58.0	22.1	Köln
5.0	7.4	53.6	6.5	9.5	17.6	66.6	15.9	19.4	61.2	19.4	Münster
4.2	8.2	34.0	7.5	11.7	17.6	65.6	16.8	17.9	64.7	17.4	Detmold
5.6	8.8	44.1	7.6	10.3	16.1	66.8	17.1	21.1	62.9	16.0	Arnsberg
3.5	5.9	38.0	5.5	9.2	16.4	66.6	17.0	18.9	60.8	20.4	Rheinland-Pfalz
3.2	5.5	42.0	5.5	9.9	16.8	65.7	17.5	18.0	62.7	19.3	Koblenz
3.4	4.9	39.8	3.4	4.5	16.5	65.8	17.7	18.2	61.6	20.2	Trier
3.7	6.3	34.7	6.1	9.9	16.1	67.4	16.5	19.6	59.2	21.1	Rheinhessen-Pfalz
5.9	8.3	45.7	7.1	12.3	15.0	67.2	17.8	20.8	62.7	16.5	Saarland
13.7	21.3	53.2	21.8	17.7	13.0	69.1	18.0	4.7	66.4	28.9	Sachsen
13.7	20.6	56.5	23.6	13.7	12.7	68.2	19.1	3.9	69.1	27.1	Chemnitz
13.7	20.8	50.3	20.3	20.9	13.4	69.2	17.4	5.0	64.1	30.9	Dresden
13.7	23.1	52.8	21.4	19.0	12.8	70.0	17.2	5.3	66.2	28.4	Leipzig
15.5	23.5	59.9	26.1	18.4	13.5	69.7	16.9	8.2	66.4	25.3	Sachsen-Anhalt
:	25.9	62.3	28.4	24.1	13.1	69.8	17.1	10.1	65.3	24.6	Dessau
:	27.1	61.0	31.0	22.7	13.1	69.6	17.3	7.5	65.0	27.6	Halle
:	20.2	57.5	22.0	13.4	13.8	69.7	16.5	8.0	68.1	24.0	Magdeburg
4.4	8.5	44.7	7.7	12.7	16.1	67.6	16.4	16.0	53.2	30.9	Schleswig-Holstein
15.2	17.6	47.9	19.8	13.7	13.5	70.3	16.3	6.6	64.8	28.6	Thüringen
7.8	10.0	51.2	15.0	26.5	15.2	67.6	17.3	47.3	35.1	17.6	Ellada
6.7	11.3	52.8	17.6	29.5	15.4	67.6	17.0	53.6	30.1	16.3	Voreia Ellada
6.9	10.4	53.6	15.4	24.5	16.0	66.2	17.9	62.5	24.9	12.7	Anatoliki Makedonia, Thraki
6.4	11.5	48.6	17.5	29.4	15.3	68.6	16.1	48.4	33.1	18.5	Kentriki Makedonia
7.4	14.7	63.1	23.3	36.8	15.8	66.3	17.9	58.1	29.2	12.7	Dytiki Makedonia
7.3	10.6	58.3	17.6	32.4	15.2	66.7	18.2	58.4	27.0	14.5	Thessalia
8.0	9.3	57.1	14.5	29.7	14.0	66.6	19.4	60.3	28.5	11.2	Kentriki Ellada
7.4	10.6	54.4	16.9	36.4	13.2	67.2	19.6	58.8	26.2	15.0	Ipeiros
2.5	9.0	22.7	10.9	21.5	14.8	64.7	20.5	63.1	26.4	10.5	Ionia Nisia
8.6	10.5	67.6	16.8	32.6	15.5	67.1	17.4	61.1	27.0	11.9	Dytiki Ellada
10.8	9.8	67.5	17.1	28.8	13.2	67.7	19.1	63.1	29.1	7.8	Sterea Ellada
7.3	7.3	44.5	10.1	26.0	13.2	65.3	21.5	56.7	31.5	11.8	Peloponnisos
9.7	9.2	51.9	13.3	22.5	15.3	68.8	15.9	33.7	43.3	23.0	Attiki
3.6	9.7	31.3	14.4	27.2	16.8	65.6	17.6	56.4	30.8	12.8	Nisia Aigaiou, Kriti
4.8	9.2	46.2	13.5	29.0	15.4	61.6	23.0	54.7	34.4	10.9	Voreio Aigaio
3.5	14.2	21.6	21.3	30.6	17.5	67.5	15.0	59.2	31.5	9.3	Notio Aigaio
3.3	7.7	34.7	11.5	24.3	16.9	66.1	17.1	55.5	29.1	15.5	Kriti
17.5	**11.4**	**34.2**	**16.4**	**22.2**	**14.9**	**68.4**	**16.8**	**58.3**	**17.3**	**24.4**	**España**
16.2	11.4	42.7	16.5	24.2	12.0	68.2	19.8	60.3	17.4	22.4	Noroeste
15.9	12.2	40.5	17.5	24.6	12.3	68.0	19.7	62.5	15.9	21.6	Galicia
17.4	9.8	46.9	13.8	23.1	10.9	68.3	20.8	56.6	20.2	23.1	Principado de Asturias
16.0	10.1	49.7	15.1	23.4	12.7	68.8	18.6	56.1	19.0	24.9	Cantabria
15.0	7.7	36.5	12.0	17.9	12.6	68.8	18.6	51.4	17.3	31.2	Noreste
18.6	9.4	41.2	14.2	22.1	12.1	70.7	17.2	48.2	17.7	34.1	Pais Vasco
10.3	5.6	25.9	9.5	12.9	13.7	68.3	18.0	50.4	15.6	34.0	Comunidad Foral de Navarra

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
La Rioja	267	53.1	3.7	96.9	94.7	106.3	9.1	40.4	50.5	10.5	61.3	44.8	77.0
Aragón	1168	24.5	2.9	90.5	89.6	99.3	7.2	35.2	57.6	30.8	62.0	45.9	77.6
Comunidad de Madrid	5218	652.6	4.2	112.4	112.3	123.3	0.8	24.5	74.7	39.8	62.8	49.9	76.0
Centro	5265	24.5	2.8	69.4	69.4	76.2	10.0	30.9	59.1	7.2	56.1	38.9	72.6
Castilla y León	2465	26.2	2.4	78.0	77.5	85.6	9.2	30.9	59.9	9.9	57.4	41.4	72.9
Castilla-la Mancha	1722	21.7	3.1	67.1	67.5	73.7	9.5	33.6	56.9	6.0	57.6	38.5	75.9
Extremadura	1078	25.9	3.5	53.5	53.8	58.7	13.3	25.7	61.0	2.7	50.7	33.7	67.0
Este	11123	184.6	3.7	93.8	93.7	103.0	3.0	36.8	60.2	42.2	63.3	50.2	76.3
Cataluña	6220	194.8	3.3	100.7	101.2	110.5	2.5	38.5	58.9	57.5	64.7	52.0	77.2
Comunidad Valenciana	4094	175.7	4.3	81.1	80.8	89.0	4.1	36.7	59.2	27.0	60.8	46.9	74.6
Illes Balears	810	161.6	5.3	105.4	102.4	115.7	2.0	24.3	73.7	15.6	65.8	53.9	77.3
Sur	8573	86.9	4.0	64.3	63.7	70.5	10.3	25.6	64.1	5.6	50.7	34.6	66.7
Andalucía	7291	83.6	3.9	63.1	62.5	69.2	10.5	25.3	64.3	6.6	49.6	33.6	65.6
Región de Murcia	1140	100.8	4.4	71.2	70.5	78.2	10.7	28.9	60.4	11.7	57.8	41.4	74.0
Ceuta y Melilla	*142*	*4571.0*	*3.9*	*68.0*	*69.6*	*74.7*	*0.8*	*7.7*	*91.5*	*0.0*	*49.7*	*31.5*	*65.8*
Ciudad Autónoma de Ceuta	75	3952.6	:	:	:	:							
Ciudad Autónoma de Melilla	67	5550.0	:	:	:	:							
Canarias	1737	239.8	4.8	79.1	79.6	86.8	4.6	21.3	74.1	8.9	57.6	44.1	70.7
France	**60912**	**96.2**	**2.6**	**104.8**	**104.4**	**115.0**	**4.1**	**25.4**	**70.5**	**140.3**	**62.9**	**56.4**	**69.6**
Île de France	11055	920.3	2.8	164.6	163.7	180.7	0.3	17.3	82.4	309.1	66.4	61.7	71.2
Bassin Parisien	10486	72.0	1.9	92.4	92.5	101.4	5.6	30.3	64.0	90.4	63.2	56.0	70.5
Champagne-Ardenne	1339	52.3	2.0	96.1	97.1	105.4	8.9	28.7	62.4	70.0	62.6	54.5	70.9
Picardie	1866	96.2	1.5	84.1	84.6	92.3	5.1	32.0	62.9	88.3	62.3	54.5	70.1
Haute-Normandie	1786	145.0	2.4	98.6	97.5	108.2	3.0	31.9	65.1	106.2	61.1	53.9	68.6
Centre	2455	62.7	1.7	93.3	93.4	102.4	4.7	32.0	63.3	108.0	63.8	56.7	71.2
Basse-Normandie	1431	81.4	2.0	87.1	87.2	95.6	7.9	26.3	65.9	58.2	65.0	59.0	71.1
Bourgogne	1609	51.0	2.1	95.5	95.9	104.8	6.1	28.6	65.4	94.3	65.0	58.5	71.6
Nord - Pas-de-Calais	4014	323.3	2.2	83.0	82.4	91.1	2.4	29.7	67.9	46.3	54.1	44.2	64.1
Est	5202	108.3	1.8	94.1	93.9	103.3	3.1	33.4	63.5	121.9	64.8	57.2	72.4
Lorraine	2316	98.3	1.2	85.6	85.6	94.0	2.8	29.6	67.6	78.0	63.2	54.6	71.7
Alsace	1762	212.8	2.2	105.9	106.0	116.2	2.3	35.2	62.5	176.0	67.1	60.6	73.4
Franche-Comté	1124	69.4	2.4	93.1	92.3	102.2	4.9	38.5	56.6	128.2	65.0	57.8	72.2
Ouest	7884	92.6	3.0	90.6	89.8	99.4	6.5	29.0	64.5	69.4	64.9	59.3	70.4
Pays de la Loire	3277	102.1	3.1	93.4	92.7	102.5	6.4	32.2	61.5	62.2	65.9	60.1	71.5
Bretagne	2950	108.4	3.2	90.2	89.3	99.0	6.3	26.8	66.9	84.3	63.9	58.8	69.1
Poitou-Charentes	1657	64.2	2.3	85.6	85.3	93.9	7.2	26.9	65.9	57.2	64.8	58.7	70.9
Sud-Ouest	6267	60.5	2.8	92.2	91.6	101.1	6.4	23.8	69.8	71.3	62.9	56.0	69.9
Aquitaine	2956	71.5	3.0	94.5	93.9	103.6	7.4	22.5	70.1	48.6	61.4	53.6	69.3
Midi-Pyrénées	2602	57.4	2.7	91.3	90.8	100.1	4.8	25.5	69.8	103.3	64.5	57.9	71.0
Limousin	710	41.9	2.2	86.0	85.2	94.4	8.7	22.8	68.5	48.8	64.1	60.3	68.1
Centre-Est	7055	101.2	2.8	103.1	103.2	113.2	4.7	28.6	66.7	210.0	64.8	58.6	71.0
Rhône-Alpes	5743	131.4	2.9	106.6	106.6	116.9	4.1	28.6	67.3	233.7	64.8	58.7	71.0
Auvergne	1312	50.4	2.4	88.1	88.3	96.6	7.8	28.3	63.9	107.4	64.6	58.3	71.0
Méditerranée	7226	107.1	2.9	90.0	89.5	98.8	5.2	17.4	77.4	88.1	56.5	49.8	63.8
Languedoc-Roussillon	2361	86.2	3.2	80.2	80.5	88.1	7.7	17.7	74.6	60.7	54.8	47.7	62.4
Provence-Alpes-Côte d'Azur	4602	146.6	2.8	95.6	94.7	104.9	3.9	17.4	78.7	106.6	57.9	51.5	64.9
Corse	264	30.4	3.4	79.9	79.5	87.7	7.5	12.2	80.2	9.3	44.8	34.5	55.0
Départements d'Outre-Mer	1724	19.3	3.5	58.0	58.2	63.8	3.0	12.9	84.1	0.0	44.3	38.0	50.9

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
12.7	6.9	37.4	10.3	14.6	13.3	67.4	19.3	58.3	15.7	26.0	La Rioja
10.7	5.5	26.0	9.1	13.8	12.8	65.9	21.4	56.4	17.8	25.8	Aragón
12.3	7.1	39.7	10.3	15.0	14.6	70.1	15.4	45.9	20.1	34.0	Comunidad de Madrid
18.1	11.9	33.3	19.1	23.3	14.5	65.4	20.1	62.2	16.5	21.3	Centro
16.9	10.4	37.2	16.9	24.3	12.4	66.0	21.6	56.9	18.2	24.8	Castilla y León
15.0	9.4	30.8	16.4	17.4	16.1	64.7	19.2	66.9	15.2	18.0	Castilla-la Mancha
25.8	19.2	30.4	28.5	31.7	16.6	65.3	18.1	67.3	14.4	18.3	Extremadura
14.6	9.7	31.3	13.3	19.4	14.5	68.7	16.8	59.4	17.7	22.8	Este
12.8	9.6	37.1	13.1	19.5	13.9	68.6	17.5	56.6	18.4	25.0	Cataluña
18.3	10.3	24.9	14.4	20.1	15.1	68.9	16.1	63.7	15.9	20.4	Comunidad Valenciana
10.5	7.3	16.7	9.3	14.9	16.4	68.3	15.3	59.6	21.8	18.7	Illes Balears
25.4	18.3	32.6	26.6	30.0	17.9	68.1	14.1	64.4	15.4	20.	Sur
26.4	19.6	33.1	28.5	31.5	17.8	68.1	14.1	65.1	15.1	19.9	Andalucía
19.0	11.3	27.1	16.6	22.2	18.0	67.8	14.3	61.8	16.0	22.2	Región de Murcia
25.0	*5.3*	*41.3*	*8.5*	*13.1*	*21.4*	*66.5*	*12.2*	*53.4*	*26.4*	*20.2*	*Ceuta y Melilla*
											Ciudad Autónoma de Ceuta
											Ciudad Autónoma de Melilla
24.3	11.1	32.1	15.4	19.8	17.1	71.0	11.9	60.9	17.1	22.0	Canarias
9.8	**8.7**	**32.7**	**9.8**	**18.9**	**18.9**	**65.1**	**16.0**	**35.9**	**40.6**	**23.5**	**France**
7.9	8.1	33.5	7.9	15.0	19.8	68.1	12.1	31.4	33.6	35.0	Île de France
10.0	8.6	32.7	10.0	19.6	19.2	64.4	16.4	41.3	40.9	17.7	Bassin Parisien
9.7	9.3	36.5	11.0	27.0	19.2	65.1	15.7	43.2	41.3	15.5	Champagne-Ardenne
10.1	8.5	30.6	9.9	20.6	20.6	65.2	14.2	44.8	38.9	16.3	Picardie
12.0	10.1	37.6	10.8	22.2	20.3	65.2	14.5	41.4	38.0	20.6	Haute-Normandie
9.7	8.6	27.2	10.4	16.0	18.4	63.8	17.8	41.0	42.4	16.6	Centre
9.4	7.9	25.1	9.4	15.9	19.1	63.6	17.3	38.5	41.7	19.7	Basse-Normandie
9.1	6.9	41.5	8.4	16.7	17.7	63.4	18.9	38.1	43.5	18.3	Bourgogne
12.5	13.4	39.7	16.0	29.4	21.3	64.8	13.9	44.3	38.2	17.5	Nord - Pas-de-Calais
7.4	7.5	24.0	8.7	18.0	19.1	65.9	15.0	34.9	45.3	19.8	Est
8.8	7.8	27.1	9.2	19.9	19.0	65.6	15.4	35.9	45.9	18.2	Lorraine
5.4	6.7	21.4	7.0	13.4	19.2	66.8	13.9	32.0	45.6	22.4	Alsace
8.0	8.3	21.3	10.0	21.8	19.1	65.0	15.9	36.9	43.7	19.3	Franche-Comté
10.1	7.4	27.6	9.0	15.6	18.4	63.9	17.7	33.5	45.4	21.1	Ouest
10.1	7.7	28.5	9.6	14.6	19.2	64.4	16.4	34.9	44.7	20.4	Pays de la Loire
9.6	6.7	23.4	8.2	16.0	18.3	63.8	18.0	30.9	45.8	23.2	Bretagne
11.2	8.0	33.0	9.4	17.0	17.0	63.1	19.9	35.8	46.0	18.1	Poitou-Charentes
9.8	8.5	31.6	10.3	18.3	16.6	63.8	19.6	33.5	44.0	22.4	Sud-Ouest
11.5	9.2	30.7	11.5	18.8	16.9	64.0	19.1	36.0	43.5	20.4	Aquitaine
8.4	8.1	32.1	9.9	17.6	16.7	64.1	19.2	30.1	43.4	26.5	Midi-Pyrénées
8.8	6.4	35.6	7.0	19.2	14.6	62.4	23.0	34.9	48.4	16.7	Limousin
9.5	6.9	25.5	7.8	16.5	18.9	65.3	15.8	32.3	42.1	25.6	Centre-Est
9.3	6.9	24.9	7.9	17.0	19.5	65.5	15.0	31.8	41.2	27.0	Rhône-Alpes
10.5	6.9	28.0	7.6	13.6	16.2	64.3	19.6	34.4	46.3	19.3	Auvergne
13.4	12.0	41.2	13.4	24.9	17.8	63.5	18.7	40.3	39.5	20.2	Méditerranée
14.9	13.1	42.7	15.0	31.3	17.5	63.2	19.3	40.7	39.4	19.9	Languedoc-Roussillon
12.9	11.4	39.9	12.4	21.4	18.0	63.7	18.4	39.4	40.1	20.6	Provence-Alpes-Côte d'Azur
10.8	13.3	56.6	18.3	44.2	16.9	64.4	18.7	58.9	26.1	15.0	Corse
:	26.5	76.1	29.4	51.3	27.6	64.3	8.1	:	:	:	Départements d'Outre-Mer

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
Guadeloupe	433	253.7	4.4	60.8	60.9	66.7	2.8	12.8	84.4	6.7	45.9	40.3	52.1
Martinique	387	343.3	3.6	67.8	67.9	74.5	5.7	12.5	81.9	0.6	48.2	43.6	53.2
Guyane	170	2.0	-0.4	48.2	48.9	52.9	2.4	13.9	83.7	0.7	44.0	35.2	52.8
Réunion	735	291.5	4.4	53.5	53.8	58.7	1.7	12.9	85.4	2.6	41.3	34.2	48.7
Ireland	**3853**	**54.8**	**9.2**	**117.6**	**115.0**	**129.1**	**6.9**	**27.8**	**65.3**	**83.6**	**65.0**	**55.2**	**74.7**
Border, Midland and Western	1016	30.5	8.1	85.4	83.8	93.7	11.4	31.4	57.3	62.1	62.2	51.7	72.4
Southern and Eastern	2837	76.7	9.5	129.2	126.2	141.8	5.5	26.6	67.9	91.3	65.9	56.4	75.5
Italia	**57927**	**192.2**	**1.9**	**100.1**	**101.3**	**109.9**	**5.0**	**31.8**	**63.2**	**73.2**	**55.5**	**42.0**	**69.1**
Nord-Ovest	15180	262.0	1.8	124.2	125.9	136.3							
Nord Ovest	*6030*	*176.9*	*1.5*	*113.4*	*115.1*	*124.5*	*3.5*	*34.0*	*62.5*	*98.9*	*61.1*	*50.4*	*71.7*
Piemonte	4291	168.9	1.3	115.1	117.5	126.3	3.4	38.1	58.4	115.9	62.0	51.6	72.2
Valle d'Aosta/Vallée d'Aoste	121	37.0	0.6	123.9	124.7	136.0	4.9	25.6	69.5	43.2	66.3	56.1	75.9
Liguria	1619	298.7	2.1	108.2	108.2	118.7	3.7	22.7	73.7	61.7	58.2	46.8	69.8
Lombardia	9150	383.4	1.9	131.3	133.1	144.0	1.9	40.1	58.0	158.5	63.2	51.8	74.5
Nord-Est	10715	172.9	1.9	120.9	122.9	132.7							
Nord Est	*6692*	*167.9*	*1.9*	*117.7*	*119.7*	*129.1*	*4.4*	*37.2*	*58.4*	*100.3*	*63.4*	*51.4*	*75.2*
Trentino-Alto Adige	*947*	*69.6*	*2.4*	*133.0*	*134.8*	*146.0*	*7.8*	*27.3*	*64.9*	*62.7*	*66.4*	*54.7*	*77.8*
Provincia Autonoma Bolzano/Bozen	467	63.1	2.7	143.4	144.9	157.4							
Provincia Autonoma Trento	480	77.3	2.1	123.0	125.0	135.0							
Veneto	4556	247.7	1.9	115.8	118.0	127.1	4.0	40.2	55.7	106.2	63.2	50.7	75.4
Friuli-Venezia Giulia	1190	151.5	1.4	112.5	114.3	123.5	3.1	33.5	63.3	107.9	62.0	51.7	72.2
Emilia-Romagna	4023	181.8	1.9	126.2	128.3	138.5	5.4	35.6	59.1	163.0	67.5	58.9	76.0
Centro	11191	191.8	2.0	108.9	110.1	119.5							
Centro	*5870*	*142.7*	*2.2*	*106.6*	*107.6*	*116.9*	*4.0*	*35.0*	*61.0*	*60.1*	*61.5*	*50.7*	*72.2*
Toscana	3553	154.6	2.2	111.1	112.0	121.9	3.9	33.0	63.2	64.2	61.5	50.6	72.6
Umbria	843	99.7	2.0	97.9	99.4	107.4	4.6	33.0	62.4	38.2	59.0	47.8	70.2
Marche	1473	152.0	2.2	100.7	101.7	110.5	4.1	40.7	55.2	62.9	62.7	52.7	72.6
Lazio	5322	309.2	1.8	111.4	112.9	122.2	3.3	19.9	76.7	44.2	55.0	41.1	69.3
Sud	14123	192.7	2.1	66.9	67.5	73.4							
Abruzzo-Molise	*1609*	*105.6*	*1.7*	*82.8*	*83.0*	*90.9*	*6.6*	*31.1*	*62.3*	*48.5*	*54.8*	*40.2*	*69.5*
Abruzzo	1282	118.8	1.6	84.0	84.3	92.2	5.8	31.6	62.6	58.6	55.6	41.1	70.1
Molise	327	73.6	2.2	78.1	78.1	85.7	10.0	29.1	60.9	9.1	51.8	36.8	66.8
Campania	5783	425.5	2.3	65.1	65.4	71.5	6.4	24.4	69.3	10.9	41.9	24.1	60.1
Sud	*6731*	*151.4*	*2.0*	*64.6*	*65.5*	*70.9*	*10.9*	*25.5*	*63.6*	*8.5*	*44.4*	*27.3*	*61.8*
Puglia	4087	211.0	1.9	65.0	66.1	71.3	10.3	26.9	62.8	9.1	45.3	27.5	63.7
Basilicata	604	60.4	2.1	70.5	72.5	77.3	10.4	33.2	56.4	8.7	46.1	29.4	62.8
Calabria	2040	135.3	2.2	62.1	62.2	68.1	12.4	19.9	67.7	7.1	41.9	26.4	57.5
Isole	6717	134.9	2.1	67.9	68.0	71.5							
Sicilia	5071	197.3	2.1	65.3	65.4	71.6	9.3	20.4	70.3	14.2	41.9	24.2	60.2
Sardegna	1646	68.3	2.2	76.0	76.1	83.4	8.7	23.5	67.8	11.2	46.7	31.2	62.2
Luxembourg (Grand-Duché)	**442**	**170.9**	**6.1**	**194.0**	**194.4**	**212.9**	**2.0**	**20.1**	**77.9**	**203.5**	**63.6**	**51.5**	**75.5**
Nederland	**16043**	**473.6**	**3.3**	**113.3**	**111.5**	**124.3**	**3.0**	**20.8**	**76.2**	**222.9**	**74.4**	**66.2**	**82.4**
Noord-Nederland	1678	201.1	2.8	105.9	102.1	116.3	4.1	23.8	72.1	76.8	72.1	63.7	80.1
Groningen	568	242.9	2.8	133.2	125.1	146.1	2.8	21.3	75.9	87.1	70.8	63.2	78.2
Friesland	633	188.6	3.2	93.8	91.9	103.0	4.3	25.6	70.1	64.6	72.7	64.3	80.7
Drenthe	477	179.9	2.4	89.5	87.9	98.3	5.4	24.5	70.2	80.8	72.8	63.5	81.8
Oost-Nederland	3367	345.6	3.2	95.5	94.1	104.8	3.6	22.7	73.7	131.3	74.5	65.9	82.7
Overijssel	1090	326.7	3.1	96.1	94.4	105.5	4.2	26.1	69.7	139.9	73.4	64.9	81.5

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
:	26.0	77.2	28.6	57.8	25.2	65.2	9.6	:	:	:	Guadeloupe
:	22.9	79.7	26.0	55.2	23.5	65.1	11.5	:	:	:	Martinique
:	24.4	74.6	29.0	46.5	35.6	60.6	3.8	:	:	:	Guyane
:	29.3	74.4	32.1	48.6	29.5	64.2	6.3	:	:	:	Réunion
15.3	**4.3**	**29.3**	**3.8**	**7.8**	**21.9**	**66.9**	**11.2**	**39.7**	**34.9**	**25.4**	**Ireland**
15.1	5.5	31.2	5.5	9.6	22.3	64.9	12.8	46.8	33.5	19.6	Border, Midland and Western
15.4	3.8	28.3	3.2	7.1	21.7	67.7	10.6	37.3	35.3	27.4	Southern and Eastern
	9.0	59.6	12.2	27.2	14.4	67.6	18.0	55.9	33.9	10.2	Italia
											Nord-Ovest
	5.4	*50.0*	*7.6*	*17.0*	*11.5*	*67.0*	*21.5*	*56.5*	*33.7*	*9.8*	*Nord Ovest*
	5.1	47.5	7.3	15.5	11.9	67.7	20.4	57.6	33.0	9.4	Piemonte
	3.6	19.3	5.5	10.6	12.6	68.7	18.7	58.6	33.8	7.7	Valle d'Aosta/Vallée d'Aoste
	6.3	57.4	8.6	23.0	10.4	64.9	24.7	53.4	35.5	11.1	Liguria
	3.8	36.5	5.6	11.4	13.0	69.5	17.5	53.7	35.2	11.0	Lombardia
											Nord-Est
	3.3	*26.2*	*5.1*	*7.5*	*13.3*	*68.5*	*18.2*	*55.6*	*35.5*	*8.9*	*Nord Est*
	2.6	*11.7*	*3.8*	*5.0*	*15.9*	*67.5*	*16.6*	*52.4*	*38.5*	*9.1*	*Trentino-Alto Adige*
											Provincia Autonoma Bolzano/Bozen
											Provincia Autonoma Trento
	3.4	28.6	5.2	7.6	13.3	69.0	17.8	57.4	33.9	8.7	Veneto
	3.7	25.8	5.6	9.4	11.2	67.7	21.1	51.3	39.0	9.7	Friuli-Venezia Giulia
	3.3	25.5	4.6	9.0	11.2	66.7	22.1	51.9	36.6	11.5	Emilia-Romagna
											Centro
	4.8	*38.6*	*7.3*	*14.6*	*12.0*	*66.2*	*21.8*	*55.0*	*34.5*	*10.5*	*Centro*
	4.8	38.8	7.3	16.2	11.5	66.6	21.9	56.5	33.3	10.2	Toscana
	5.7	44.9	8.9	16.5	12.2	65.6	22.2	48.1	40.4	11.5	Umbria
	4.4	33.8	6.4	10.5	12.9	65.8	21.3	55.1	34.1	10.7	Marche
	8.6	68.7	11.9	32.0	14.2	68.8	17.0	48.3	38.9	12.8	Lazio
											Sud
	7.5	*56.5*	*11.7*	*23.0*	*14.4*	*65.7*	*19.9*	*52.6*	*36.6*	*10.8*	*Abruzzo-Molise*
	6.2	54.1	10.0	20.1	14.4	65.9	19.8	52.2	36.9	10.9	Abruzzo
	12.6	61.0	18.7	34.3	14.7	64.8	20.5	54.4	35.2	10.4	Molis
	21.1	73.7	30.6	59.5	19.3	67.2	13.6	59.8	31.0	9.1	Campania
	17.4	*63.8*	*25.8*	*44.4*	*17.2*	*67.1*	*15.7*	*60.6*	*30.2*	*9.1*	*Sud*
	14.0	65.8	20.6	37.8	17.3	67.7	15.1	62.1	28.8	9.1	Puglia
	15.3	60.3	23.8	43.4	16.3	66.0	17.8	58.6	33.3	8.1	Basilicata
	24.6	62.2	35.6	58.2	17.4	66.3	16.3	58.2	32.2	9.6	Calabria
											Isole
	20.1	69.3	28.4	51.2	18.0	65.9	16.1	61.7	29.2	9.2	Sicilia
	18.5	58.5	26.4	48.3	14.6	70.2	15.3	62.8	29.0	8.2	Sardegna
2.0	**2.6**	**27.4**	**3.6**	**7.0**	**18.9**	**66.8**	**14.3**	**38.4**	**43.0**	**18.7**	**Luxembourg (Grand-Duché)**
5.4	**2.8**	**26.5**	**3.1**	**5.0**	**18.6**	**67.9**	**13.6**	**32.2**	**42.8**	**25.0**	**Nederland**
7.3	3.5	27.7	4.3	7.3	18.2	67.2	14.7	34.0	45.8	20.2	Noord-Nederland
7.8	4.2	29.2	5.2	8.3	16.8	68.7	14.5	32.2	43.6	24.2	Groningen
7.1	3.2	27.0	4.0	6.7	19.0	66.7	14.3	33.8	46.8	19.4	Friesland
7.0	3.1	26.0	3.6	6.6	18.6	66.1	15.3	36.4	47.1	16.5	Drenthe
5.1	2.7	24.6	3.2	4.6	19.6	67.3	13.2	32.6	44.7	22.6	Oost-Nederland
5.2	2.9	23.4	3.1	4.8	19.5	66.9	13.7	34.1	45.7	20.2	Overijssel

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
Gelderland	1941	389.6	3.0	97.4	96.1	106.9	3.1	21.9	75.0	148.0	74.9	66.6	83.1
Flevoland	335	235.9	5.8	82.4	81.3	90.4	4.0	16.8	79.2	107.8	75.1	65.5	84.6
West-Nederland	7473	859.6	3.4	125.8	123.9	138.0	2.5	16.2	81.3	117.7	74.9	67.0	82.8
Utrecht	1124	824.0	4.5	142.8	140.9	156.7	1.1	14.8	84.1	184.4	76.2	68.9	83.7
Noord-Holland	2542	956.7	3.5	132.5	131.4	145.5	2.0	15.3	82.7	130.8	76.1	68.5	83.6
Zuid-Holland	3431	1196.8	3.3	118.5	116.0	130.0	3.0	16.4	80.6	148.1	73.8	65.6	81.8
Zeeland	376	208.3	0.8	95.4	95.6	104.7	4.8	26.1	69.1	102.4	73.1	62.5	83.3
Zuid-Nederland	3525	497.0	3.3	107.3	106.3	117.7	3.3	27.4	69.2	535.2	74.4	65.9	82.6
Noord-Brabant	2383	483.4	3.6	111.5	110.4	122.3	3.2	27.6	69.3	697.8	75.9	67.6	83.9
Limburg	1143	528.2	2.7	98.5	97.8	108.1	3.7	27.2	69.2	199.9	71.3	62.4	79.8
Österreich	**8032**	**95.8**	**2.4**	**111.9**	**113.5**	**122.8**	**5.7**	**29.4**	**65.0**	**157.6**	**69.0**	**61.5**	**76.5**
Ostösterreich	3395	144.1	2.2	119.0	121.2	130.6	4.8	25.2	70.0	65.6	68.4	62.1	74.7
Burgenland	276	69.5	3.1	76.2	76.3	83.6	5.3	30.1	64.7	69.2	67.9	59.3	76.2
Niederösterreich	1531	79.9	2.9	92.3	94.5	101.3	8.8	30.6	60.6	133.3	70.0	62.2	77.7
Wien	1588	3827.5	1.7	152.2	154.7	167.0	0.9	19.1	80.0	146.0	67.0	62.5	71.6
Südösterreich	1744	67.3	2.6	96.2	97.0	105.6	8.0	32.6	59.4	141.5	67.5	58.7	76.4
Kärnten	556	58.3	2.3	96.3	97.5	105.6	6.5	30.6	62.9	124.4	66.9	56.9	77.1
Steiermark	1188	72.5	2.7	96.2	96.8	105.5	8.7	33.5	57.8	149.6	67.8	59.5	76.2
Westösterreich	2893	84.1	2.6	113.1	114.4	124.1	5.3	32.3	62.4	192.2	70.6	62.4	78.8
Oberösterreich	1367	114.1	2.7	108.2	108.9	118.7	6.8	35.3	57.9	189.7	70.9	62.9	78.8
Salzburg	513	71.7	2.0	123.6	126.5	135.7	4.5	24.9	70.7	139.5	71.8	65.1	78.8
Tirol	667	52.7	2.7	113.4	114.8	124.4	4.6	27.8	67.7	136.0	69.5	61.0	78.1
Vorarlberg	347	133.5	2.6	116.2	117.8	127.5	2.1	40.4	57.5	387.8	69.6	58.9	80.2
Portugal	**10293**	**112.0**	**3.5**	**70.7**	**70.6**	**77.6**	**12.4**	**33.9**	**53.8**	**4.7**	**68.2**	**60.8**	**75.9**
Continente	9811	110.5	3.5	70.9	70.8	77.8	12.3	34.1	53.6	4.7	68.5	61.3	75.9
Norte	3646	171.3	2.6	56.9	57.3	62.5	11.4	43.3	45.4	4.3	67.8	59.9	76.0
Centro	*1784*	*75.4*	*3.4*	*56.9*	*56.8*	*62.5*	*26.9*	*30.8*	*42.3*	*4.8*	*73.6*	*67.3*	*80.1*
Centro	2402	83.5	3.7	57.9	57.7	63.5							
Lisboa e Vale do Tejo	*3462*	*290.1*	*4.1*	*94.7*	*94.4*	*103.9*	*4.5*	*29.1*	*66.5*	*6.3*	*67.1*	*60.7*	*73.8*
Lisboa	2603	1011.2	3.9	105.1	105.0	115.4							
Alentejo	*526*	*19.5*	*2.1*	*56.9*	*56.5*	*62.5*	*14.6*	*23.4*	*62.0*	*1.2*	*65.2*	*56.5*	*74.0*
Alentejo	766	24.6	3.2	60.7	59.8	66.6							
Algarve	394	78.9	5.4	72.4	71.4	79.4	9.7	21.3	69.0	3.1	68.6	60.0	77.1
Açores	238	101.9	3.9	55.8	54.5	61.2	13.7	29.1	57.2	0.0	61.5	44.5	78.3
Madeira	244	313.6	5.0	78.4	77.4	86.0	12.8	27.4	59.8	2.7	65.1	56.5	74.5
Suomi/Finland	**5188**	**17.0**	**4.1**	**103.9**	**103.4**	**114.1**	**5.4**	**27.0**	**67.6**	**325.2**	**68.1**	**66.2**	**70.0**
Manner-Suomi	5162	17.0	4.1	103.7	103.2	113.8	5.4	27.1	67.6	326.2	68.0	66.1	69.9
Itä-Suomi	679	9.7	2.0	75.7	75.5	83.0	10.3	25.6	64.1	80.0	59.9	57.7	62.0
Väli-Suomi	*704*	*16.4*	*3.1*	*85.8*	*86.0*	*94.1*	*9.7*	*29.7*	*60.6*	*171.9*	*65.9*	*62.4*	*69.3*
Pohjois-Suomi	*557*	*4.3*	*3.0*	*90.2*	*89.4*	*99.0*	*7.3*	*27.0*	*65.8*	*292.4*	*62.0*	*61.1*	*62.8*
Uusimaa (Suuralue)	*1401*	*153.8*	*5.9*	*140.3*	*139.4*	*153.9*	*1.1*	*20.6*	*78.4*	*588.0*	*75.3*	*74.4*	*76.2*
Etelä-Suomi	*1821*	*34.8*	*3.6*	*97.2*	*97.0*	*106.7*	*5.5*	*32.5*	*62.0*	*291.4*	*67.7*	*65.1*	*70.3*
Etelä-Suomi	2537	62.1	5.0	121.5	120.9	133.3							
Länsi-Suomi	1319	22.6	3.5	91.1	91.0	99.9							
Pohjois-Suomi	628	4.7	3.1	89.0	88.2	97.7							
Åland	26	17.0	5.4	141.6	140.8	155.4	5.2	17.2	77.6	108.0	77.6	73.8	81.4
Sverige	**8896**	**21.6**	**2.9**	**106.1**	**107.8**	**116.5**	**2.5**	**23.0**	**74.5**	**345.5**	**73.6**	**72.2**	**74.9**
Stockholm	1831	282.1	4.7	144.9	148.2	159.0	0.6	13.7	85.8	582.1	78.4	77.5	79.4

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
5.0	2.4	23.6	2.9	4.0	19.0	67.5	13.6	32.3	43.5	24.1	Gelderland
6.2	3.7	30.8	5.4	7.4	23.8	67.3	8.9	29.7	48.5	21.8	Flevoland
5.2	2.6	27.3	2.8	4.7	18.4	68.0	13.6	30.1	41.3	28.6	West-Nederland
4.5	2.2	23.1	2.4	4.3	19.0	68.6	12.5	26.6	38.7	34.7	Utrecht
5.5	2.6	25.3	2.6	3.9	17.8	68.8	13.5	27.4	41.8	30.8	Noord-Holland
5.1	2.9	30.3	3.2	5.4	18.6	67.6	13.8	33.0	41.2	25.8	Zuid-Holland
5.7	2.3	22.0	2.8	4.2	18.5	65.2	16.4	33.9	46.9	19.1	Zeeland
5.0	2.7	25.9	3.1	5.0	18.2	68.5	13.4	35.2	42.8	21.9	Zuid-Nederland
5.0	2.4	23.0	2.8	4.3	18.6	68.6	12.8	34.0	42.9	23.0	Noord-Brabant
5.2	3.3	30.4	4.0	6.6	17.3	68.2	14.6	37.7	42.7	19.6	Limburg
3.3	**4.0**	**28.1**	**3.9**	**6.2**	**16.8**	**67.7**	**15.5**	**21.7**	**62.6**	**15.7**	**Österreich**
3.5	5.4	33.3	4.9	8.1	15.8	67.9	16.3	21.2	62.0	16.9	Ostösterreich
2.4	4.2	21.2	4.8	7.1	15.2	66.7	18.1	27.5	61.0	11.6	Burgenland
2.6	3.5	27.3	3.7	5.7	16.8	66.6	16.5	20.1	66.2	13.7	Niederösterreich
4.4	7.2	37.1	6.0	11.1	15.0	69.3	15.7	21.1	58.4	20.6	Wien
3.8	3.4	26.9	3.5	5.7	16.5	67.2	16.4	19.6	65.9	14.5	Südösterreich
3.8	2.7	24.6	3.2	5.5	16.9	66.9	16.2	14.2	70.9	14.9	Kärnten
3.8	3.8	27.6	3.7	5.8	16.2	67.3	16.5	22.0	63.6	14.3	Steiermark
2.7	2.7	17.0	2.9	4.7	18.2	67.7	14.0	23.7	61.3	15.1	Westösterreich
2.5	3.1	21.1	3.4	5.1	18.0	67.1	14.9	24.8	60.3	14.9	Oberösterreich
2.6	2.8	12.4	2.8	5.4	17.9	68.6	13.5	19.9	65.0	15.1	Salzburg
3.6	2.0	11.7	1.8	3.4	18.4	68.2	13.4	21.7	62.9	15.4	Tirol
2.3	2.5	12.6	2.8	4.4	19.2	68.4	12.4	28.7	56.3	15.0	Vorarlberg
4.1	**5.1**	**34.5**	**6.1**	**11.6**	**16.0**	**67.6**	**16.4**	**79.6**	**11.1**	**9.3**	**Portugal**
4.1	5.2	34.5	6.2	11.8	15.8	67.7	16.5	79.3	11.2	9.5	Continente
3.4	4.9	37.0	5.9	10.0	17.5	68.5	14.0	84.1	8.7	7.2	Norte
2.7	*3.0*	*27.4*	*3.8*	*11.2*	*14.9*	*65.5*	*19.6*	*82.6*	*8.7*	*8.8*	*Centro*
											Centro
5.2	*6.5*	*36.9*	*7.6*	*13.6*	*14.9*	*68.8*	*16.3*	*72.8*	*14.8*	*12.4*	*Lisboa e Vale do Tejo*
											Lisboa
8.0	*6.6*	*21.0*	*9.2*	*16.9*	*13.6*	*62.9*	*23.5*	*79.8*	*10.1*	*10.1*	*Alentejo*
											Alentejo
3.0	5.3	28.2	6.7	14.3	14.7	66.6	18.7	80.4	12.9	6.7	Algarve
3.7	2.5	38.6	4.3	7.9	21.9	65.8	12.4	86.3	8.9	4.9	Açores
3.3	2.5	33.4	3.0	5.2	19.4	67.2	13.4	85.9	9.3	4.8	Madeira
	9.1	**24.9**	**9.1**	**21.0**	**18.2**	**66.9**	**14.8**	**25.0**	**42.6**	**32.4**	**Suomi/Finland**
	9.1	25.0	9.1	21.0	18.2	66.9	14.8	25.0	42.6	32.4	Manner-Suomi
	13.3	26.4	13.7	29.3	17.6	65.4	17.0	27.0	46.6	26.3	Itä-Suomi
	9.3	*27.4*	*10.4*	*20.4*	*18.8*	*64.9*	*16.4*	*26.7*	*43.8*	*29.4*	*Väli-Suomi*
	14.1	*19.7*	*13.1*	*28.0*	*20.7*	*66.2*	*13.2*	*24.4*	*47.4*	*28.2*	*Pohjois-Suomi*
	5.8	*22.6*	*5.0*	*14.7*	*18.6*	*69.9*	*11.5*	*22.3*	*37.2*	*40.5*	*Uusimaa (Suuralue)*
	9.1	*27.1*	*9.6*	*22.0*	*17.3*	*66.3*	*16.4*	*26.0*	*43.6*	*30.3*	*Etelä-Suomi*
											Etelä-Suomi
											Länsi-Suomi
											Pohjois-Suomi
	2.9	0.0	2.8	17.7	18.8	65.2	16.0	31.0	43.0	26.1	Åland
	5.1	**19.9**	**4.6**	**12.8**	**18.5**	**64.2**	**17.3**	**18.5**	**55.1**	**26.4**	**Sverige**
	4.0	12.1	3.7	11.5	18.6	67.0	14.4	13.5	51.8	34.7	Stockholm

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
Östra Mellansverige	1495	38.9	2.1	91.1	92.5	99.9	2.9	26.1	71.0	315.3	72.2	70.1	74.2
Sydsverige	1283	91.9	3.3	98.3	99.7	107.9	2.8	23.7	73.6	402.5	70.7	68.6	72.8
Norra Mellansverige	831	13.0	0.4	89.3	91.8	98.0	3.7	27.0	69.3	200.3	69.7	68.4	70.9
Mellersta Norrland	375	5.3	0.8	98.8	98.7	108.4	3.8	21.2	75.0	132.6	68.9	69.0	68.7
Övre Norrland	511	3.3	0.5	92.6	93.7	101.6	3.2	23.7	73.1	207.7	68.6	68.4	68.7
Småland med Öarna	797	24.0	2.1	95.8	97.3	105.1	4.1	30.7	65.2	127.0	75.2	73.3	77.1
Västsverige	1774	60.3	3.2	102.5	103.5	112.5	2.4	25.3	72.3	339.3	75.5	74.2	76.7
United Kingdom	**58837**	**241.3**	**3.0**	**105.4**	**103.1**	**115.7**	**1.4**	**24.3**	**74.3**	**124.4**	**71.7**	**65.3**	**78.0**
North East	2517	292.2	0.8	80.3	78.6	88.1	0.9	27.2	71.9	72.6	65.6	61.0	70.1
Tees Valley & Durham	1133	371.9	0.0	76.1	75.0	83.5	0.8	30.8	68.4	66.1	64.0	58.6	69.4
Northumberland and Tyne & Wear	1384	248.6	1.4	83.7	81.5	91.8	0.9	24.4	74.8	78.0	66.9	63.1	70.6
North West (inc. Merseyside)	6732	475.2	2.6	94.8	92.4	104.0	0.8	26.0	73.2	96.0	69.4	63.8	74.9
Cumbria	488	71.5	-0.9	79.1	80.2	86.8	3.6	30.9	65.5	75.7	69.3	62.6	76.0
Cheshire	984	422.0	2.8	117.7	113.6	129.1	0.9	27.7	71.4	204.6	72.9	67.9	77.7
Greater Manchester	2483	1930.8	3.2	102.6	99.3	112.6	0.3	25.4	74.3	68.7	69.4	63.7	75.0
Lancashire	1416	461.1	1.8	90.0	87.9	98.8	1.0	28.1	70.8	69.2	72.1	66.6	77.4
Merseyside	1362	2078.3	1.9	74.5	73.7	81.8	0.2	21.8	78.1	104.5	64.2	58.7	69.6
Yorkshire & the Humber	4967	319.1	2.1	90.8	89.2	99.7	1.2	27.1	71.7	81.1	70.5	63.8	77.0
East Riding & North Lincolnshire	869	237.6	0.3	87.1	86.3	95.6	2.0	29.5	68.5	63.3	68.6	60.7	76.5
North Yorkshire	751	90.4	3.1	96.2	93.6	105.6	2.5	24.2	73.3	130.3	75.6	68.7	82.5
South Yorkshire	1267	812.2	2.0	77.1	75.4	84.6	0.6	28.6	70.9	52.7	67.9	61.1	74.4
West Yorkshire	2080	1022.6	2.5	98.7	97.4	108.3	0.6	26.5	72.9	88.5	71.1	64.9	77.0
East Midlands	4175	267.2	2.5	96.6	95.6	106.0	1.4	30.3	68.3	104.9	73.5	66.8	80.1
Derbyshire & Nottinghamshire	1972	411.9	2.5	95.8	93.9	105.1	0.5	31.8	67.6	111.3	71.3	65.3	77.3
Leicestershire, Rutland & Northants	1555	316.2	3.0	104.4	104.4	114.6	1.3	29.8	69.0	139.1	76.6	68.7	84.3
Lincolnshire	648	109.4	1.6	80.7	79.3	88.5	4.4	26.8	68.8	42.2	73.0	66.7	79.2
West Midlands	5267	405.0	2.3	95.2	93.6	104.5	1.0	30.6	68.5	94.4	71.2	64.1	78.1
Herefordshire, Worcestershire & Warks	1223	207.3	3.3	96.6	94.0	106.0	1.6	30.0	68.4	172.4	76.3	69.0	83.6
Shropshire & Staffordshire	1489	240.1	1.4	79.7	81.0	87.4	1.5	30.6	67.9	73.6	74.2	67.6	80.3
West Midlands	2554	2842.3	2.2	103.6	100.8	113.7	0.3	30.9	68.8	70.2	67.1	59.7	74.2
Eastern	5395	282.2	3.3	101.4	98.8	111.3	1.5	25.0	73.5	238.6	76.1	69.0	83.1
East Anglia	2177	173.2	2.0	95.7	92.8	105.1	2.6	25.3	72.1	310.9	75.5	68.4	82.5
Bedfordshire, Hertfordshire	1601	557.0	4.8	122.6	119.3	134.5	0.6	23.8	75.6	213.7	78.3	71.5	84.8
Essex	1616	439.8	3.2	88.2	86.4	96.7	1.0	25.9	73.1	165.2	74.9	67.5	82.2
London	7188	4538.8	4.6	164.7	159.5	180.7	0.3	13.9	85.8	102.3	68.7	61.5	75.6
Inner London	2772	8648.0	5.2	263.4	251.4	289.1	0.1	11.4	88.5	131.1	63.4	56.9	69.7
Outer London	4416	3496.2	3.8	102.7	102.0	112.7	0.4	15.4	84.3	84.1	72.3	64.7	79.6
South East	8007	419.0	4.1	115.9	112.9	127.2	1.4	22.4	76.2	209.8	77.0	70.0	83.8
Berkshire, Bucks & Oxfordshire	2093	364.5	5.2	149.0	146.4	163.5	1.5	22.7	75.8	318.8	79.4	72.9	85.6
Surrey, East & West Sussex	2555	467.9	3.8	113.6	110.5	124.6	1.3	19.6	79.2	151.7	76.4	69.4	83.4
Hampshire & Isle of Wight	1778	426.1	3.9	103.0	100.4	113.0	1.0	24.4	74.6	233.5	78.1	71.2	84.8
Kent	1581	423.3	3.0	90.3	86.4	99.1	2.2	24.3	73.5	133.0	73.4	65.8	81.1
South West	4934	205.8	2.7	93.8	92.4	103.0	2.0	23.7	74.3	132.9	76.2	70.4	81.9
Gloucestershire, Wiltshire & N Somerset	2163	284.5	3.3	112.1	110.4	123.0	1.3	23.0	75.6	228.8	78.3	72.5	84.0
Dorset & Somerset	1192	195.3	2.1	82.8	83.0	90.9	2.1	24.3	73.6	80.6	76.6	70.9	82.2
Cornwall & Isles of Scilly	502	141.1	1.9	59.5	59.1	65.3	3.0	22.5	74.5	65.5	71.3	64.2	78.2
Devon	1077	160.6	1.9	85.3	82.0	93.6	2.9	25.0	72.1	57.1	73.6	68.4	78.8
Wales	2903	139.8	1.8	83.0	81.5	91.1	2.6	26.2	71.2	69.7	66.3	59.4	73.2

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
	5.2	23.0	4.9	13.6	18.7	64.0	17.3	19.8	55.9	24.3	Östra Mellansverige
	6.2	25.1	5.9	15.2	18.2	63.9	18.0	19.9	53.7	26.3	Sydsverige
	6.3	19.1	5.7	13.7	18.0	62.3	19.7	20.4	59.4	20.2	Norra Mellansverige
	5.9	19.3	4.5	13.7	17.5	62.5	20.0	20.2	58.5	21.3	Mellersta Norrland
	6.1	17.6	4.6	13.1	18.4	64.2	17.4	13.8	61.6	24.6	Övre Norrland
:	3.9	18.1	4.1	9.6	18.8	62.3	18.9	23.4	56.3	20.3	Småland med Öarna
:	4.9	21.7	4.3	12.9	18.9	63.8	17.3	19.6	54.1	26.3	Västsverige
9.6	**5.1**	**21.9**	**4.5**	**12.0**	**19.1**	**65.4**	**15.6**	**18.1**	**52.4**	**29.5**	**United Kingdom**
	6.8	27.0	5.2	14.2	18.8	65.2	16.1	21.2	55.7	23.0	North East
	7.2	24.6	6.0	16.6	19.3	65.2	15.5	22.5	55.9	21.6	Tees Valley & Durham
	6.4	29.1	4.5	12.4	18.3	65.2	16.5	20.2	55.6	24.3	Northumberland and Tyne & Wear
	5.3	26.6	4.3	12.6	19.4	65.0	15.6	20.7	54.1	25.2	North West (inc. Merseyside)
	5.1	28.0	4.1	11.7	17.7	64.3	17.9	17.1	58.5	24.4	Cumbria
	4.2	20.3	3.2	11.8	19.0	65.6	15.5	14.4	54.9	30.6	Cheshire
	5.6	27.4	4.6	12.2	20.1	65.4	14.5	22.1	52.3	25.6	Greater Manchester
	4.4	21.7	3.7	12.4	19.3	64.3	16.4	20.1	55.9	24.0	Lancashire
	6.6	31.6	5.4	14.3	19.4	64.5	16.1	24.5	53.3	22.3	Merseyside
9.5	5.2	21.3	4.3	12.6	19.2	65.0	15.8	20.2	54.9	24.9	Yorkshire & the Humber
	6.3	26.3	5.2	15.5	19.3	64.2	16.5	19.0	58.1	22.9	East Riding & North Lincolnshire
	3.7	18.6	3.6	7.6	17.8	64.4	17.8	15.1	55.1	29.8	North Yorkshire
	5.2	24.6	3.7	12.4	18.9	65.3	15.8	21.5	56.2	22.3	South Yorkshire
	5.4	17.9	4.5	13.1	19.9	65.4	14.7	21.7	52.8	25.5	West Yorkshire
8.5	4.5	22.9	4.4	10.6	18.8	65.3	15.9	19.7	55.7	24.6	East Midlands
	5.1	28.9	4.5	11.2	18.6	65.4	16.0	20.7	55.7	23.6	Derbyshire & Nottinghamshire
	4.0	17.5	4.6	10.4	19.6	65.9	14.5	19.1	53.9	27.0	Leicestershire, Rutland & Northants
	4.3	13.2	3.4	9.5	17.7	63.3	19.0	17.7	60.1	22.2	Lincolnshire
10.3	5.6	20.7	5.2	14.2	19.5	64.9	15.6	21.4	53.3	25.2	West Midlands
	3.5	13.1	4.1	8.9	18.3	65.2	16.5	16.7	53.6	29.7	Herefordshire, Worcestershire & Warks
	4.6	21.8	4.0	11.2	18.7	65.8	15.6	18.0	56.6	25.5	Shropshire & Staffordshire
	7.4	22.1	6.7	18.2	20.5	64.2	15.3	26.1	51.2	22.8	West Midlands
	3.7	18.2	3.5	9.4	18.9	65.1	16.0	15.8	57.0	27.2	Eastern
7.4	3.7	16.5	3.3	9.8	18.4	64.4	17.2	16.6	56.9	26.5	East Anglia
	3.5	17.6	3.2	8.4	19.9	66.0	14.2	12.3	54.9	32.8	Bedfordshire, Hertfordshire
	4.0	20.8	4.0	10.0	18.7	65.0	16.3	18.2	59.1	22.7	Essex
11.9	6.7	23.6	6.0	14.2	19.3	68.2	12.5	17.5	41.1	41.4	London
:	9.0	27.1	7.7	18.4	19.2	69.8	10.9	20.4	31.6	48.0	Inner London
:	5.3	19.9	4.9	11.6	19.4	67.1	13.6	15.5	47.4	37.0	Outer London
	3.7	14.9	3.5	8.9	18.8	65.2	16.0	12.7	53.3	34.0	South East
	3.4	11.4	3.0	8.6	19.6	67.5	12.9	13.4	49.3	37.4	Berkshire, Bucks & Oxfordshire
	3.8	17.9	3.6	7.8	17.9	63.7	18.4	11.8	52.7	35.5	Surrey, East & West Sussex
	3.5	9.5	3.7	9.9	18.6	65.4	16.0	10.5	55.8	33.7	Hampshire & Isle of Wight
	4.2	19.7	3.9	9.8	19.3	64.4	16.4	15.9	57.3	26.8	Kent
8.8	3.7	14.0	3.3	9.1	18.0	63.6	18.4	12.8	57.1	30.1	South West
	3.6	9.2	3.3	8.5	18.7	65.2	16.1	12.5	55.1	32.4	Gloucestershire, Wiltshire & N Somerset
	3.6	13.3	3.4	8.5	17.4	61.9	20.7	13.1	57.0	29.9	Dorset & Somerset
:	4.2	20.9	3.2	11.0	17.4	62.6	20.0	13.8	58.3	27.9	Cornwall & Isles of Scilly
:	4.2	20.7	3.2	10.6	17.5	62.6	19.9	12.7	60.8	26.6	Devon
9.4	5.6	20.1	5.0	14.0	19.0	63.8	17.3	21.4	51.5	27.1	Wales

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
West Wales & the Valleys	1853	141.2	0.9	69.6	69.4	76.4	2.9	25.9	71.3	47.9	64.0	57.6	70.4
East Wales	1050	137.3	3.1	106.7	102.7	117.1	2.2	26.7	71.1	107.8	70.2	62.5	77.7
Scotland	5064	64.8	1.5	99.5	98.3	109.2	1.9	23.5	74.6	85.5	70.3	65.8	74.8
North Eastern Scotland	503	68.6	1.6	136.6	138.7	149.9	3.2	30.9	65.9	220.1	76.0	67.6	84.5
Eastern Scotland	1904	105.9	1.6	101.2	100.4	111.0	1.9	23.1	75.0	103.6	72.2	67.7	76.8
South Western Scotland	2287	175.5	1.5	94.3	91.9	103.5	0.9	23.1	76.0	52.0	66.5	62.5	70.7
Highlands & Islands	369	9.3	0.4	72.4	72.1	79.4	4.2	19.8	76.0	41.8	73.5	70.7	76.3
Northern Ireland	1689	119.3	2.7	82.4	81.2	90.4	4.5	26.0	69.5	35.4	64.8	57.5	72.2
Bălgarija	**7913**	**71.3**	**0.0**	**26.0**	**24.9**	**28.6**	**9.6**	**32.7**	**57.7**	**3.1**	**50.6**	**47.5**	**53.7**
Severozapadjen	535	50.5	-0.2	23.7	22.2	26.0	12.5	34.6	52.9	:	43.7	42.2	45.1
Severen Tsentralen	1201	67.0	0.2	22.4	21.5	24.6	10.0	37.2	52.9	:	49.3	46.5	52.1
Severoiztochen	1309	65.5	0.0	22.7	21.8	24.9	15.1	27.6	57.3	:	47.7	43.3	52.2
Yugozapaden	2097	103.4	1.0	36.3	33.9	39.9	3.3	31.4	65.2	:	56.4	53.9	58.9
Yuzhen Tsentralen	1975	71.8	-1.7	21.7	20.7	23.8	12.3	35.0	52.7	:	49.9	47.5	52.4
Yugoiztochen	796	54.4	0.0	22.1	23.9	24.3	11.4	31.6	57.0	:	47.4	42.0	52.9
Kypros	**706**	**119.7**	**3.8**	**77.8**	**76.1**	**85.4**	**5.3**	**23.2**	**71.6**	**11.9**	**68.5**	**59.0**	**78.8**
Česká Republika	**10219**	**129.6**	**1.5**	**60.6**	**59.8**	**66.5**	**4.8**	**39.9**	**55.3**	**11.3**	**65.5**	**57.1**	**74.0**
Praha	1164	2348.1	4.4	135.5	129.8	148.7	0.5	21.3	78.2	:	72.0	65.8	78.5
Střední Čechy	1124	102.0	3.0	50.0	49.6	54.9	5.1	38.9	56.0	:	68.6	58.1	79.0
Jihozápad	1175	66.7	0.9	55.1	55.0	60.5	8.1	41.6	50.3	:	68.0	59.5	76.5
Severozápad	1124	129.9	-1.2	47.9	48.6	52.6	3.6	41.4	55.0	:	62.4	53.8	70.9
Severovýchod	1486	119.5	1.0	50.8	50.6	55.7	5.0	46.3	48.8	:	67.0	57.9	76.1
Jihovýchod	1645	117.6	1.3	53.4	52.3	58.6	7.5	40.2	52.3	:	64.7	56.2	73.1
Střední Morava	1233	135.5	0.4	48.1	47.8	52.8	5.0	46.3	48.6	:	63.2	54.8	71.7
Moravskoslezsko	1268	228.4	-0.7	50.6	50.3	55.5	2.8	43.9	53.3	:	59.2	51.2	67.1
Eesti	**1367**	**30.2**	**5.2**	**38.5**	**37.1**	**42.3**	**7.0**	**31.3**	**61.7**	**9.4**	**62.0**	**57.9**	**66.5**
Magyarország	**10188**	**109.5**	**4.0**	**51.5**	**49.5**	**56.5**	**6.0**	**34.2**	**59.8**	**17.1**	**56.6**	**50.0**	**63.5**
Közép-Magyarország	2830	409.1	5.2	81.3	76.3	89.2	1.8	26.3	71.9	:	61.3	54.6	68.8
Közép-Dunántúl	1121	99.5	4.6	48.0	46.8	52.7	5.7	44.6	49.6	:	60.6	54.0	67.3
Nyugat-Dunántúl	1003	89.7	4.3	53.6	54.8	58.8	5.5	42.0	52.5	:	64.1	56.5	71.5
Dél-Dunántúl	996	70.3	2.6	38.7	37.6	42.5	9.8	33.8	56.3	:	51.9	46.1	58.0
Észak-Magyarország	1300	96.8	2.3	33.7	32.4	37.0	4.3	39.9	55.8	:	50.1	44.3	56.1
Észak-Alföld	1561	87.9	3.0	34.2	32.1	37.5	7.5	33.8	58.8	:	49.5	42.8	56.2
Dél-Alföld	1377	75.2	1.6	36.9	36.0	40.5	14.2	33.0	52.8	:	54.7	47.5	62.1
Lietuva	**3481**	**53.3**	**5.1**	**37.2**	**35.6**	**40.8**	**17.9**	**27.5**	**54.6**	**1.4**	**59.9**	**57.2**	**62.7**
Latvija	**2355**	**36.5**	**5.7**	**33.4**	**31.8**	**36.6**	**15.3**	**25.8**	**58.9**	**5.4**	**60.4**	**56.8**	**64.3**
Malta	**393**	**1182.4**	**4.8**	**69.5**	**70.7**	**76.2**	**2.3**	**31.2**	**66.5**	**13.0**	**53.7**	**33.1**	**74.1**
Polska	**38641**	**123.6**	**6.3**	**40.9**	**41.1**	**44.9**	**19.3**	**28.6**	**52.0**	**2.3**	**51.5**	**46.2**	**56.9**
Dolnośląskie	2971	148.9	5.8	41.6	42.1	45.6	9.5	32.4	58.2	:	47.6	43.9	51.4
Kujawsko-Pomorskie	2100	116.9	4.7	37.0	36.8	40.6	19.1	29.4	51.4	:	50.6	45.0	56.3
Lubelskie	2230	88.8	4.5	28.6	28.6	31.4	39.4	18.1	42.5	:	56.1	51.6	60.7
Lubuskie	1024	73.2	4.7	36.3	37.0	39.9	10.2	31.3	58.5	:	45.9	41.4	50.5
Łódzkie	2638	144.8	5.8	36.9	37.2	40.5	19.8	30.6	49.7	:	52.8	47.8	58.1
Małopolskie	3238	213.8	6.2	35.3	36.3	38.8	23.7	27.0	49.3	:	54.6	50.2	59.3
Mazowieckie	5075	142.6	10.4	63.7	62.2	69.9	20.4	21.6	58.0	:	57.1	52.9	61.4
Opolskie	1083	115.1	2.7	33.2	34.1	36.4	18.5	32.9	48.7	:	50.3	44.3	56.5

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
:	5.9	19.1	5.6	14.6	18.8	63.3	17.9	23.2	51.7	25.1	West Wales & the Valleys
:	5.1	21.9	4.1	13.0	19.4	64.6	16.1	18.5	51.2	30.3	East Wales
9.4	6.5	23.5	5.2	14.5	18.3	66.3	15.4	18.7	48.6	32.7	Scotland
:	3.6	10.0	4.1	7.2	18.4	67.4	14.2	17.8	45.8	36.4	North Eastern Scotland
:	5.8	21.4	4.9	13.7	18.0	66.4	15.7	15.3	49.4	35.2	Eastern Scotland
:	7.9	28.8	6.1	17.0	18.5	66.3	15.2	22.4	47.6	30.1	South Western Scotland
:	5.9	11.9	4.0	15.0	18.6	64.8	16.6	17.0	51.9	31.1	Highlands & Islands
15.1	5.8	37.5	5.0	11.8	22.5	64.5	13.0	27.2	47.8	25.0	Northern Ireland
:	**18.2**	**66.0**	**17.3**	**37.2**	**15.9**	**67.9**	**16.2**	**28.4**	**50.5**	**21.2**	**Bălgarija**
:	26.9	77.8	25.3	53.6	15.3	63.4	21.3	29.3	54.2	16.5	Severozapaden
:	18.1	62.1	16.9	36.5	14.8	66.5	18.7	25.7	53.4	20.8	Severen Tsentralen
:	22.3	63.2	22.6	40.0	16.9	68.6	14.5	37.6	45.1	17.3	Severoiztochen
:	13.3	65.2	12.4	28.3	14.9	69.6	15.5	18.0	52.5	29.5	Yugozapaden
:	17.2	67.1	15.7	38.5	16.4	68.2	15.4	32.7	49.5	17.8	Yuzhen Tsentralen
:	22.3	65.8	23.0	44.8	17.4	67.5	15.1	33.3	49.5	17.2	Yugoiztochen
:	**3.3**	**20.1**	**4.2**	**7.7**	**23.2**	**65.5**	**11.3**	**33.5**	**37.4**	**29.1**	**Kypros**
:	**7.3**	**50.3**	**9.0**	**16.9**	**16.6**	**69.6**	**13.8**	**12.1**	**76.0**	**11.9**	**Česká Republika**
:	3.6	28.1	4.5	9.4	13.9	69.8	16.3	4.4	68.4	27.1	Praha
:	5.0	45.1	7.4	8.5	16.3	69.3	14.4	13.7	77.8	8.5	Střední Čechy
:	4.9	44.1	5.9	8.9	16.6	69.6	13.8	12.1	77.1	10.7	Jihozápad
:	11.4	58.5	13.3	26.2	17.3	70.7	12.0	17.5	75.3	7.2	Severozápad
:	5.4	43.3	7.1	13.0	17.1	69.1	13.9	11.9	78.7	9.3	Severovýchod
:	6.8	47.1	7.9	17.0	16.9	69.0	14.1	11.1	76.0	12.9	Jihovýchod
:	8.8	51.1	10.8	21.4	17.0	69.5	13.6	13.1	77.4	9.5	Střední Morava
:	13.4	58.8	16.3	29.1	17.6	70.2	12.2	13.5	76.8	9.7	Moravskoslezsko
:	**10.3**	**52.4**	**9.7**	**17.6**	**18.0**	**67.5**	**14.5**	**12.4**	**57.1**	**30.5**	**Eesti**
:	**5.9**	**43.6**	**5.4**	**12.4**	**17.1**	**68.3**	**14.6**	**28.4**	**57.3**	**14.3**	**Magyarország**
:	4.0	51.1	3.9	8.8	15.5	69.3	15.2	20.7	57.8	21.5	Közép-Magyarország
:	5.0	39.6	4.7	10.3	17.4	69.5	13.2	28.9	59.2	12.0	Közép-Dunántúl
:	4.1	38.6	4.2	8.8	16.3	68.9	14.8	26.9	60.8	12.2	Nyugat-Dunántúl
:	7.9	44.9	7.1	15.9	17.1	68.3	14.7	32.7	56.5	10.8	Dél-Dunántúl
:	8.9	45.9	7.6	19.4	18.2	67.0	14.8	32.4	56.3	11.3	Észak-Magyarország
:	7.9	42.2	7.0	14.9	19.4	67.1	13.5	34.3	54.2	11.5	Észak-Alföld
:	6.3	35.5	6.5	13.9	17.1	67.5	15.5	32.4	57.0	10.5	Dél-Alföld
:	**13.7**	**53.5**	**12.9**	**23.0**	**19.8**	**66.9**	**13.4**	**15.1**	**40.1**	**44.8**	**Lietuva**
:	**12.1**	**45.3**	**11.0**	**20.8**	**17.8**	**67.5**	**14.7**	**17.8**	**63.0**	**19.3**	**Latvija**
:	**5.2**	**:**	**6.1**	**11.0**	**20.8**	**67.2**	**12.0**	**:**	**:**	**:**	**Malta**
:	**19.9**	**54.8**	**20.9**	**42.5**	**18.8**	**68.9**	**12.3**	**19.1**	**68.3**	**12.5**	**Polska**
:	26.1	52.7	25.6	50.2	17.2	70.4	12.4	17.8	69.6	12.6	Dolnośląskie
:	21.5	53.3	22.0	43.2	19.4	69.1	11.4	19.8	69.8	10.4	Kujawsko-Pomorskie
:	16.6	46.7	16.5	37.8	19.8	66.6	13.6	22.4	63.9	13.8	Lubelskie
:	26.3	47.7	26.7	50.1	19.4	69.8	10.8	16.7	72.7	10.5	Lubuskie
:	20.3	62.5	21.4	42.1	17.0	68.7	14.3	23.0	64.0	13.0	Łódzkie
:	16.2	58.6	16.5	37.5	20.0	67.7	12.3	16.8	69.2	14.0	Małopolskie
:	17.0	56.0	17.5	36.9	17.8	68.3	14.0	18.2	65.2	16.6	Mazowieckie
:	19.7	53.0	21.0	45.3	18.1	70.2	11.7	19.0	69.3	11.7	Opolskie

Main regional indicators

Region *	Population		Economy								Labour market		
				GDP/head (PPS)			Employment by sector (% of total), 2002				Employment rate (ages 15-64 as % of pop. aged 15-64), 2002		
	1000 inhabitants, 2001	Population density (inh./km²), 2001	GDP growth (annual average % change), 1995-2001	2001, EU15=100	Average 1999-2000-2001, EU15=100	2001, EU25=100	Agriculture	Industry	Services	EPO patent applications per million inh., average 1999-2000-2001	Total	Female	Male
Podkarpackie	2130	118.8	5.1	29.2	29.5	32.0	30.8	28.2	41.1	:	53.2	47.9	58.3
Podlaskie	1221	60.5	6.3	31.0	30.5	34.0	36.5	18.6	45.0	:	54.8	50.0	59.6
Pomorskie	2202	120.4	6.5	40.6	41.3	44.6	9.5	31.1	59.4	:	50.2	42.9	57.9
Śląskie	4840	393.7	3.9	44.6	45.2	49.0	4.1	39.5	56.4	:	46.9	40.1	54.0
Świętokrzyskie	1321	113.2	5.5	31.2	31.8	34.3	31.0	24.9	44.2	:	50.3	45.6	55.0
Warmińsko-Mazurskie	1469	60.7	4.8	29.6	30.8	32.5	17.9	28.1	54.0	:	46.0	40.9	51.0
Wielkopolskie	3363	112.8	7.8	43.4	43.5	47.6	20.3	32.7	47.0	:	52.9	46.0	59.9
Zachodniopomorskie	1735	75.8	5.8	40.5	41.1	44.5	8.3	29.6	62.2	:	45.8	41.2	50.7
România	**22408**	**94.0**	**-0.1**	**24.4**	**23.7**	**26.8**	**36.8**	**29.7**	**33.5**	**0.9**	**57.6**	**51.8**	**63.6**
Nord-Est	3836	104.1	-1.8	17.2	18.8	18.9	51.3	23.6	25.1	:	59.1	55.3	62.9
Sud-Est	2935	82.1	-2.0	21.3	20.8	23.4	38.1	26.1	35.9	:	54.7	46.3	63.4
Sud	3463	100.5	-2.3	20.6	19.5	22.6	44.3	28.0	27.7	:	57.9	51.0	65.0
Sud-Vest	2397	82.0	-1.6	21.6	20.5	23.7	51.3	23.2	25.5	:	61.3	56.4	66.2
Vest	2032	63.4	-0.4	26.4	25.3	29.0	27.9	34.7	37.4	:	57.5	50.5	64.8
Nord-Vest	2839	83.1	-1.2	21.6	21.3	23.7	34.2	32.3	33.5	:	57.8	53.2	62.4
Centru	2640	77.4	-2.0	23.5	24.0	25.8	26.1	41.1	32.8	:	55.8	50.5	61.2
Bucureşti	2269	1245.7	7.4	52.3	46.5	57.3	2.7	35.0	62.4	:	56.9	51.0	63.4
Slovenija	**1992**	**98.3**	**5.1**	**67.8**	**67.1**	**74.4**	**9.2**	**38.7**	**52.1**	**30.5**	**63.4**	**58.6**	**68.2**
Slovenská Republika	**5403**	**110.2**	**3.9**	**44.7**	**43.9**	**49.0**	**6.2**	**38.5**	**55.4**	**5.7**	**56.8**	**51.4**	**62.4**
Bratislavský	602	293.0	5.7	101.8	97.4	111.7	2.3	23.1	74.7	:	67.2	62.7	72.1
Západné Slovensko	1878	125.3	3.4	40.9	41.0	44.9	7.3	42.4	50.3	:	57.2	51.6	62.9
Stredné Slovensko	1360	83.7	3.2	36.9	36.1	40.5	6.5	40.7	52.8	:	55.4	50.0	60.8
Východné Slovensko	1564	99.3	3.5	34.0	33.1	37.3	6.5	39.4	54.1	:	53.2	47.4	59.2

N10: new Member States; N12: new Member States plus Bulgaria and Romania

** NUTS level 1 (underlined) and level 2 regions. The new regions introduced in May 2003 are shown in red, the old regions in italics.*

The changes introduced are as follows: in Germany, Brandenburg has been divided into two NUTS 2 regions; in Spain, Ceuta y Melilla has also been divided into two regions; in Italy, the Nord Ovest NUTS 1 region has been redefined to include Lombardia, previously a NUTS 1 region, Nord Est to include Emilia-Romagna, Centro to include Lazio and Sud to include Abruzzo-Molise and Campania, while a new NUTS 1 region, Isole, has been formed to cover Sardegna and Sicilia; in Portugal, the former Lisboa e Vale do Tejo NUTS 2 region has been split between Centro, a new Lisboa region and Alentejo; in Finland, four previous NUTS 2 regions in the Manner-Suomi NUTS 1 region (all except Itä-Suomi) have been reclassified to form three new NUTS 2 regions.

GDP growth: FR(DOM): 1995–2000; GDP/head: FR(DOM): 2000 and average 1999–2000

Employment by sector: F(DOM): estimates; MT: national source

Long-term unemployment: excl. MT

Employment rates: MT: national source

Population by age class: F(DOM): 1998; MT: 1999

Source: Eurostat (REGIO, LFS), National Statistical Offices and calculations DG REGIO

Labour market					Age structure			Education			Region *
Unemployment rate (%)					% of the population aged : (2000)			Educational attainment of persons aged 25-64 (% of total), 2002			
Total, 1992	Total, 2002	Long term unemployed, 2002 (% of total unempl.)	Female, 2002	Young, 2002	<15	15-64	65+	Low	Medium	High	
:	18.2	67.5	19.2	45.7	21.4	66.8	11.8	20.0	68.8	11.1	Podkarpackie
:	16.8	58.0	17.1	37.9	20.1	66.4	13.5	23.9	62.4	13.6	Podlaskie
:	21.5	39.5	23.7	45.1	19.8	69.4	10.7	19.4	67.5	13.1	Pomorskie
:	20.1	62.3	23.2	42.0	17.3	71.2	11.5	15.0	74.4	10.6	Śląskie
:	18.8	53.9	19.4	48.7	18.8	67.4	13.8	20.2	67.1	12.6	Świętokrzyskie
:	25.9	59.2	27.7	52.2	20.7	69.0	10.4	25.9	63.2	10.9	Warmińsko-Mazurskie
:	18.2	45.3	20.2	38.0	19.8	68.9	11.3	17.9	71.5	10.6	Wielkopolskie
:	26.0	52.7	26.3	54.6	18.7	70.4	10.9	20.7	68.0	11.3	Zachodniopomorskie
:	**8.4**	**54.0**	**7.7**	**23.2**	**18.5**	**68.3**	**13.2**	**28.9**	**61.2**	**9.8**	**România**
:	7.8	50.8	7.1	19.6	21.2	66.2	12.6	32.8	60.2	7.0	Nord-Est
:	10.6	52.8	11.2	26.7	18.8	68.7	12.6	32.2	58.5	9.3	Sud-Est
:	9.8	53.4	9.1	29.8	18.2	67.0	14.7	31.1	61.8	7.1	Sud
:	6.7	55.6	6.2	22.4	18.5	67.0	14.5	27.5	64.0	8.5	Sud-Vest
:	7.2	51.5	6.8	18.6	17.7	69.4	12.9	28.7	60.8	10.5	Vest
:	7.6	55.2	6.6	19.4	19.0	68.6	12.4	31.7	58.9	9.4	Nord-Vest
:	8.4	53.7	7.0	22.8	18.5	69.2	12.3	26.5	65.6	7.9	Centru
:	8.8	61.3	7.3	26.1	14.3	72.1	13.6	16.9	60.9	22.1	Bucureşti
:	**6.3**	**55.6**	**6.8**	**16.5**	**16.1**	**70.0**	**13.9**	**23.0**	**61.8**	**15.3**	**Slovenija**
:	**18.7**	**65.2**	**18.7**	**37.7**	**19.8**	**68.8**	**11.4**	**14.0**	**75.1**	**10.9**	**Slovenská Republika**
:	8.7	53.3	9.2	18.4	16.4	71.6	12.0	9.1	66.6	24.3	Bratislavský
:	17.5	69.8	18.1	35.5	18.5	69.5	12.0	15.5	76.0	8.5	Západné Slovensko
:	21.4	61.9	21.3	40.6	20.2	68.4	11.5	15.2	75.2	9.7	Stredné Slovensko
:	22.2	65.7	21.7	44.4	22.4	67.2	10.4	13.2	77.6	9.2	Východné Slovensko

List of graphs

List of maps

List of tables

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