

# **The Efficiency of EU Cohesion Policy: A Comparative Analysis**

By  
Julia Lipovecz

**Submitted to  
Central European University  
Department of International Relations and European Studies**

In partial fulfillment of the requirements for the degree of MA

Supervisor: Professor László Csaba  
Budapest, Hungary  
2009

Word count: 16 007



## Table of Content

I. Introduction.....	1
II. Abstract .....	3
Chapter 1. Cohesion Policy of the EU.....	4
1. Economic and Social Cohesion.....	4
1.1 Establishing Cohesion Policy.....	4
1.2 Key Objectives of Cohesion Policy in the Programming Period 2000-06 .....	8
1.3 Key Objectives of Cohesion Policy in the Programming Period 2007-13 .....	10
1.4 The Road to Projects.....	11
1.5 The Added Value of EU Subsidies.....	12
1.6 Debating on the Future of Cohesion Policy .....	14
Chapter 2. The Cohesion Countries: Ireland and Portugal.....	16
2.1 Economic History .....	16
2.1.1 End of the Second World War: Europe's Reconstruction.....	16
2.1.2 The Pre-accession Period of Ireland and Portugal.....	17
2.2 Establishing Cohesion Policy in Ireland .....	20
2.2.1 Summarizing the Role of FDI in Irish Economy .....	20
2.2.2 Community Assistance in Ireland .....	20
2.2.2.1 Ireland's Economic Objectives and Policy.....	21
2.2.2.2 Financial Planning.....	22
2.2.2.3 Priorities under the First Programming Period 1989-93 .....	23
2.2.2.4 Priorities under the Second Programming Period 1994-99.....	24
2.2.2.5 Priorities under the Third Programming Period 2000-2006.....	28
2.2.2.6 Priorities under the Fourth Programming Period 2007-2013 .....	31
2.2.3 Future of Ireland's Miracle.....	31
2.3 Establishing Cohesion Policy in Portugal.....	33
2.3.1 The Iberian Peninsula.....	33
2.3.2 Territorial and Institutional Framework of Portugal.....	34
2.3.3 Community Assistance in Portugal.....	35
2.3.3.1 Priorities under the First Programming Period 1989-93 .....	35
2.3.3.2 Priorities under the Second Programming Period 1994-99.....	37
2.3.3.3 Priorities under the Third Programming Period 2000-06.....	41
2.3.3.4 Priorities under the Fourth Programming Period 2007-13 .....	44
2.3.4 Estimated Progress in the Future .....	45
Chapter 3. Reasons and Implications for the Different Usage of EU Funds .....	46
3.1 Ireland's Receipt for Success .....	46
3.2 Reasons for Portugal's Performance through EU Funds .....	48
3.3 Lessons for the New Member States .....	49
3.4 The Current Financial Crisis and the Cohesion Policy.....	50
III. Conclusion.....	52
IV Bibliography.....	53
V. Appendices .....	55

## List of Tables and Figures

<i>Table 1 Economic Effects of the Structural and Cohesion Funds .....</i>	<i>14</i>
<i>Table 2 GDP and Population Growth in Cohesion Countries, 1988-2003.....</i>	<i>19</i>
<i>Table 3 Irish GDP per Capita in EU15 Average (1960-2005).....</i>	<i>22</i>
<i>Table 4 Evolution of Key Microeconomic Variables 1994-99.....</i>	<i>26</i>
<i>Table 5 GDP Growth by Sector, 1994-99 (constant prices).....</i>	<i>27</i>
<i>Table 6 Microeconomic Developments, 1995-2006.....</i>	<i>30</i>
<i>Table 7 Real GDP Growth in the EU and Portugal (Annual % change), 1976-1994.....</i>	<i>36</i>
<i>Table 8 Real GDP Growth in the EU and Portugal (Annual % change), 1994-1999.....</i>	<i>39</i>
<i>Table 9 Employment, Productivity, Labour Costs and Unemployment Indicators for the EU and Portugal, 1994-1999.....</i>	<i>40</i>
<i>Table 10 Annual Growth Rate of GDP, %.....</i>	<i>42</i>
<i>Table 11 Microeconomic Developments, 1995-2006.....</i>	<i>42</i>

## I. Introduction

*“Europe sees its future as striking a balance between competition and cooperation, collectively trying to steer the destiny of the men and women who live in it. Is this easily done? No. Market forces are powerful. If we left things to their own devices, industry would be concentrated in the north and leisure pursuits in the south. But these market forces, powerful though they may seem, do not always pull in the same direction. Man’s endeavour and political aspiration is to try to develop a balanced territory.”<sup>1</sup>*

As Jacques Delors, President of the European Commission (1985-1995) once stated, Europe needs a balanced territory in order to grow up to the forthcoming challenges. Solving the problem of regional disparities is meant by that endeavour, which has been the main objective for Cohesion Policy of the Community. In the interest of achieving this objective through various regions, the need for institutionalization (both on Community and Member State’s level) had already been defined since its establishment. In 2009, the beneficiary Member States are facing the fourth programming period (first period was 1989-93) of the EU, according to the 1987 reform of the Cohesion Policy structure.

My thesis is dealing with the structural and institutional set up, and the impact of the Cohesion Policy in two particular Member States, namely Ireland and Portugal. The motivation for choosing these two Member States is simple; both as “Cohesion countries” enjoyed the benefits of the EU Funds system since their accession, but one of them – Ireland - performed better in terms of efficiency. The paper gives an overview about the structure of Cohesion Policy of both countries by finding the reasons behind the different achievement in their economies. Efficiency refers to the input side of the processes, therefore the paper shows the qualitative and quantitative inputs given by the two countries in order to achieve effectiveness. Efficiency is measured on the level of national political agreement, social partnership, and institutions – since as determined below, institutions matter the most.

The thesis is divided into three chapters; the first chapter introduces the logic of Cohesion Policy through its historical developments and the generated contents of its instruments. The general added value of the policy towards the Member States and the future of the policy will also be discussed in the first chapter.

---

<sup>1</sup> Jacques Delors, European Commission, Archive

The second chapter deals with the two chosen countries, since their economic history in the framework of European history, precisely from the reconstruction period after the Second World War. Turning to the programming periods each by one, the impacts of the funding system are clearly detailed and analyzed. However, the assessment and the implications of their EU Funds absorptions are left to the third chapter.

The third, closing chapter, in addition, defines some receipts for the new Member States in relation to the proper use of the Funds, also in the frame of the current financial crisis. Since Cohesion Policy, with its financial support is only an additional budgetary element for the economies, it is important to stress out the contribution level of EU Funds in terms of the developments.

However, until the tangible amount of money arrives to the beneficiary's account, according to a Hungarian saying, "a lot of water shall flow down the Danube".

## **II. Abstract**

This paper analyses the impact of the EU Structural and Cohesion Funds – together called the Cohesion Policy - on the Member States' economic performance. However, it is a complex and controversial issue, which has been disputed among scientists, since the EU subsidies are in all cases an additional stimulus for the economies, but not the only factors.

Two Member States, Ireland and Portugal are taken under the loupe in order to get a coherent picture on the efficiency and effectiveness of the EU Funds. Out of the four Cohesion countries (until the 2007-13 period) – Ireland, Greece, Spain, Portugal - Ireland and Portugal stand out as the two different examples, as Ireland caught-up to the forerunners at a very early stage, whereas Portugal was lagging behind, although they both benefited in great amount from the EU subsidies.

Cohesion Policy was established to overcome regional disparities within the Member States and to foster economic convergence within the EU. How well these goals have been achieved in the case of the two countries through the three programming period (1989-93, 1994-99, 2000-06) they have been using EU Funds, and how the new programming period (2007-13) laid down the future developments for the new Member States is the main focus point of the paper. Although the main beneficiaries have changed through the great enlargement in 2004, the objectives and tools for the economic achievements and failures of the old “Cohesion countries” may serve as a mirror for the new ones, since the problem of regional cohesion remains considerable in the EU.

## Chapter 1. Cohesion Policy of the EU

### 1. Economic and Social Cohesion

#### *1.1 Establishing Cohesion Policy*

Strengthening the cohesion in economic, social and territorial terms is the core objective of the EU's Cohesion Policy (also known as Regional Policy).

Cohesion Policy is a framework for two funding elements, the Structural Funds – comprising the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG) - and the Cohesion Fund, which have been developed since the establishment of the European Community in 1957. The Community's enlargement periods showed how the structure of the Cohesion Policy needed to undergo severe changes.

Although the **Treaty of Rome** did not include exact provisions on the overall EU Cohesion Policy and its funding system, it did define the need for a coherent policy towards supporting the development of its members: *„In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas.”*<sup>2</sup>

However, in the frame of solidarity mechanism two Structural Funds were introduced in the Treaty of Rome: the European Social Fund (ESF, since 1958) and the European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF, since 1962).

When the European Community faced its first enlargement and together the economic crisis of the 1970's, the attention was seriously turned to the regional problems and their solutions within the Community. Therefore after the first enlargement of the EC in 1973 – with UK, Ireland and Denmark – the main funding for regional disparities was established through the European

---

<sup>2</sup> Treaty of Rome, 1957, Art. 158-162



Regional Development Fund (ERDF) in 1975. Although at the beginning the ERDF had only modest financial resources (supporting up to 50% only for certain regional development projects under the categories of industrial and infrastructural), it contributed to the evolution of an integrated development policy. It has shifted from an intergovernmental managed paying mechanism to an actual Treaty-based common policy of the EC, managed through the Community methods.<sup>3</sup>

The early Structural Funds system faced several problems concerning the implementation process. The most criticized facts were, that the European Commission should have a more active role in the policy-making; the ERDF budget was too low in relation to the scale of regional problems and to the level of regional expenditures of the Member States; the role of set national quotas – as they were set at the beginning - should be reduced and more from the ERDF should be distributed according to Community priorities, rather than national priorities; Structural Funds should be allocated to comprehensive development programmes rather than single, predetermined projects; all regional development programmes should be integrated and used in a coordinative manner; and the most important in terms of efficiency, the institutionalization of the entire system by setting up programming periods for the awarded Funds.

All the problems related to the effectiveness of the Structural Funds came to the foreground when the second enlargement period occurred. In 1981 Greece, in 1986 Spain and Portugal joined the EC, all poor and peripheral and mainly rural countries with low productivity. It was not a question that these newly integrated Member States needed support from the EC.

The first major revision of the Treaty of Rome was the **Single European Act** (SEA), signed in 1986 (came into force in 1987) which was a great step forward in terms of Cohesion Policy.

The SEA first of all dealt with the completion of the internal market, but it also made provisions on the regional issue. The SEA strengthened the Community's objective of reducing disparities between regions (Article 130A), while specifying the ERDF as an instrument for that. Therefore the SEA gave the European Community new competence for economic and social cohesion and set its objectives and tools. The means were based on the effectiveness of the system, therefore operational rules were laid down.<sup>4</sup>

---

<sup>3</sup> Kengyel, Á: Evaluating the Added Value of EU-level Regional Policy, p304-325

<sup>4</sup> Horváth, Z. p438-462

The basic principles of these rules were the following:

The funds were concentrated under objectives and regions, which were set up by the European Commission. In order to create better coordination among the actors of the Cohesion Policy, a partnership process was introduced between the European Commission, the Member States and the regional authorities through the planning, the implementation and the monitoring phases of the Funds system. Transparency needed through the entire programming process in order to scrutinize the utilization of the subsidies. Additionality became a basic principle, the level of the national contributions was strictly observed during the entire programming period. According to the additionality principle, the EU Structural Funds may not replace the national expenditure of the Member State. In order to prepare a balanced system for it, the European Commission verifies additionality at national level in cooperation with the Member State, for the regions under Convergence objective (former Objective 1). Subsidiarity, as another fundamental principle of Cohesion Policy means that the decisions must be made at the lowest possible level, where the most information is available for the most effective decision-making.<sup>5</sup>

The new rules were supported by the new financial allocation, provided by the **Delors I. package**<sup>6</sup>. In 1988 the European Council decided on doubling the amount of the resources up to ECU 64 billion for the next period 1989-93. This reform brought new principles, such as focusing on the poorest and most backward regions, prescribing multi-annual programming, the strategic orientation of investments, and the invitation of regional and local partners into the process. In the same year, in 1988 the Council adopted the first regulation on Structural Funds becoming a leg of the Cohesion Policy and set up **five Community objectives** for the different instruments:

1. Support regions lagging behind (regions whose GDP per capita did not exceed 75% of the EC average);
2. Support regions worst hit by the decline in industrial production;
3. Helping the young and long-term unemployment;
4. Support measures for re-training and promoting the adjustment of the workforce to the changes;

---

<sup>5</sup> Kengyel, Á.: Evaluating the Added Value of EU-level Regional Policy, p304-325

<sup>6</sup> The „Delors I. package” was a great step in terms of financial planning in the history of the EC, it was led by Jacques Delors, President of the European Commission

5. Support modernization and structural adjustment in agricultural and fisheries sectors. The greatest absorption goes to Objective 1, until 1999 about 70-73% of the Funds.<sup>7</sup>

In order to see clearly which regions are eligible in geographical terms, the Commission uses statistical data. Europe is divided into various groups of regions corresponding to the classification known by: NUTS (Nomenclature of Territorial Units for Statistics)<sup>8</sup>

The **Treaty on the European Union** (Maastricht Treaty), signed in 1992 (entered into force in 1993) established a new instrument, the second leg of the Cohesion Policy, namely the Cohesion Fund. Another important step was the establishment of the Committee of the Regions, and the subsidiary principle. The new budget – ECU 168 billion - for Structural and Cohesion Funds for the period 1994-99 was set up by the European Council. Cohesion Policy contained from 1992 onwards two instruments: the Structural Funds (including ESF, ERDF, EAGGF and the newly introduced Financial Instrument of Fisheries Guidance – FIFG) and the Cohesion Fund.

For the agenda of the following financial period 2000-06 two main themes emerged, namely the need for simplification of the Cohesion Policy's structure and the upcoming enlargement. On these new challenges were emphasized in the **Agenda 2000**, since the Eastern enlargement involved countries whose level of development was well below the EU average. Reducing economic and social disparities between the Member States became an even higher problem and therefore priority after the enlargement than before at any enlargement. The European Commission proposed a reform of the Cohesion Policy. All the reforms introduced since the policy's creation aimed to simplify the system. An important event took place in March 2000, when the European Council agreed on the **Lisbon Strategy** in Lisbon. The Strategy set fundamental goals for the future EU: focusing on growth, employment and innovation in the frame of competitiveness. This event was a shift in the core objectives of the Cohesion Policy as well.

---

<sup>7</sup> Horváth, Z. p438-462

<sup>8</sup> It was established by Eurostat more than 30 years ago in order to provide a single uniform breakdown of territorial units for the production of regional statistics for the EU

## ***1.2 Key Objectives of Cohesion Policy in the Programming Period 2000-06***

According to the **Agenda 2000** three objectives remained (by contracting) out of the six objectives from the previous periods:

### **Objective 1: Promoting development and structural adjustment for the less prosperous regions**

Since Objective 1 is the main priority of the European Union's Cohesion Policy, more than 2/3 of the absorptions of the Structural Funds (more than EUR 135 billion) are allocated to helping areas lagging behind in their development where the GDP is below 75% of the EU's average. These regions have low level of investment, higher unemployment rate than the average, lack of services for businesses and individuals, and poor infrastructure. The Structural Funds supports the takeoff for the economic activities by providing the regions with the basic infrastructure, whilst raising the level of trained human resources and encouraging investments. All the regions which fall into Objective 1 with a GNI of less than 90% of the EU's average are supported by the Cohesion Fund, which is a special solidarity Fund. Since its creation in 1993, the Cohesion Fund has co-financed great environmental and transport projects in the four least prosperous "Cohesion countries": Ireland, Greece, Portugal, and Spain.

### **Objective 2: Supporting areas facing structural difficulties**

Objective 2 of the Structural Funds aims to help all areas facing structural difficulties, in industrial, rural, urban or fisheries. These areas are situated in regions whose development level is close to the EU's average, but they face socio-economic difficulties along with higher unemployment. Several reasons led to their backward situation, such as the evolution of industrial or service sectors, the decline in traditional activities in rural areas, a crisis situation in urban areas, difficulties affecting fisheries activity.

### **Objective 3: Supporting the modernization of education, training and employment policies in regions not eligible under Objective 1**

The new Objective 3 of the Structural Funds for the financial planning period 2000-06 thus brings together the former Objective 3 (helping the young and long-term unemployment) and the

Objective 4 (support measures for re-training and promoting the adjustment of the workforce to the changes). Hence, the Objective 3 covers all activities relating to human resources development. Its aim is to modernize education and training policy and to promote employment.<sup>9</sup>

According to Agenda 2000, the four Structural Funds (ESF, ERDF, EAGGF, FIFG) remained unchanged, however other Community Initiatives under the Funds were set as following: INTERREG (transnational, cross-border and inter-regional cooperation), URBAN (economic and social regeneration of crisis-hit towns and cities), LEADER (rural development through local initiatives), EQUAL (transnational cooperation to combat all forms of discrimination and inequality in access to the labour market). All these initiatives previously gained 9-10% from the allocated Structural Funds, during the period 2000-06 this amount reduced to 5%.

The 2000-06 budget allocated for Cohesion Policy EUR 213 billion for the old Member States and besides that an additional allocation of EUR 22 billion was settled for the new Member States for the period 2004-06. However, the new Member States already got familiar with the funding system since before their accession to the EU, they were eligible for several pre-accession subsidies, such as: ISPA, SAPARD and PHARE.

The 2004 historic enlargement brought an increase in the EU's population by 20%, and an increase in Union's GDP only by 5%. The GDP per capita in these new Member States was under half of the EU average. Almost the entire territory of the new members fell under the Objective 1 category, which made them eligible for the highest level of EU Funds. As a result of the second Eastern enlargement in 2007, when Romania and Bulgaria joined the EU, the demographic data within the EU fell more in negative terms. Among the 170 million EU citizens, one in three now live in the poorest regions which receive subsidies under the Objective 1 "convergence" regions.<sup>10</sup> According to these facts the budget of the Cohesion Policy was greatly increased for the period of 2007-13. EUR 347 billion has been allocated for Structural and Cohesion Funds, where 81.5% of it are planned to be spent in the "Convergence" regions (Objective 1).<sup>11</sup>

<sup>9</sup> DG Regio, European Commission, Fact sheet

<sup>10</sup> DG Regio, European Commission, Fact sheet

<sup>11</sup> Horváth, Z. p438-462

### ***1.3 Key Objectives of Cohesion Policy in the Programming Period 2007-13***

The ERDF, the ESF and the Cohesion Fund contribute to three objectives of the EU: Convergence (replacing Objective 1), Regional Competitiveness and Employment (Objective 2), and European Territorial Cooperation (Objective 3, replacing INTERREG Initiative) in the following manner:

#### **Objective 1: Convergence<sup>12</sup>**

The main goals of the Convergence objective is to promote growth-enhancing the conditions which lead to real convergence for the least-developed Member States and regions. The amount available under the Convergence objective is EUR 282.8 billion, representing 81.5 % of the total.

#### **Objective 2: Regional Competitiveness and Employment<sup>13</sup>**

The Regional Competitiveness and Employment objective aims to support the goals of the Lisbon Agenda, namely to strengthen competitiveness and attractiveness, as well as employment. The amount for this Objective is EUR 55 billion, just below 16% of the total allocation.

#### **Objective 3: European Territorial Cooperation<sup>14</sup>**

The European Territorial Cooperation objective will strengthen transnational and cross-border cooperation through joint local and regional initiatives, aiming at integrated territorial development, interregional cooperation and exchange of experience. The allocation to this objective is EUR 8.7 billion, which is 2.5 % of the total.

The Community Initiatives (INTERREG III, URBAN, EQUAL) were integrated into the Funds. Leader+ and the EAGGF have been replaced by the European Agricultural Fund for Rural Development (EAFRD), the FIFG became European Fisheries Fund (EFF), and they both operate independently from Cohesion Policy.<sup>15</sup>

---

<sup>12</sup> Eligible: NUTSII regions

<sup>13</sup> Eligible NUTSI and 2 regions

<sup>14</sup> Eligible: NUTSIII regions

<sup>15</sup> DG Regio, European Commission, Fact sheet

### ***1.4 The Road to Projects***

On the basis of the European Commission's proposal, the European Council along with the European Parliament decides on the budget and the rules of the Cohesion Policy. The **Community Strategic Guideline** (CSG) is the basic foundation of the policy. The Commission consults with the Member States on the strategic dimension, and makes the proposal on the CSG. The Member States first set the overall objectives in the **Community Support Framework** (CSF) and then the priorities in the **National Development Plan** (NDP, but since 2007 National Strategic Reference Framework, NSRF) in line with the CSG's priorities: growth, innovation, knowledge-based economy, creating more and better jobs; through an ongoing partnership process with the Commission and other national actors (governmental and NGO level). The NSRF defines the strategy of the Member State for the entire programming period, and proposes a list of **Operational Programmes** (OPs) to implement. The OPs set the priorities and the instruments of the Member State (or regions). The number of OPs differs from state to state, since it depends on their programming structure and budget. There is an obligation for the Member States/regions concerned by Convergence: 60% of total expenditure must be allocated to the priorities related to the EU's Lisbon Strategy for growth and jobs. For the Member States/regions concerned by the Competitiveness and Employment objective the obligation is 75%.<sup>16</sup>

The Commission takes decision on each OP, but the implementation part is left to the national authorities dedicated to that task. The form of the central institutions may vary in each Member State, while some establish a completely independent body for the programming, planning, implementing and monitoring, evaluating tasks for the EU Funds, others integrate these tasks into the existing ministerial level, dedicating additional features and personnel to the institutions. However, each Member State has to establish the following institutions either in a separate institutional framework or integrated into the existing governmental system:

- A Managing Authority (managing the OPs, it can be a national, regional or local public authority or public/private body);

---

<sup>16</sup> DG Regio, European Commission, Common Strategic Guidelines, 20007-13

- A Certification Body (certifying the statement of expenditure and the payment applications before their transmission to the Commission; it can be a national, regional or local public authority or body);
- An Auditing Body (monitoring efficiency for each OP, it can be a national, regional or local public authority or body).

Some countries dedicate to all OPs separate bodies, others create collective bodies. In every case there is a Technical Assistance OP for the management expenditures.

The Member State has the obligation to give monitoring reports permanently on each OP and evaluation reviews on the projects implemented. On the Commission's side according to Article 159 of the Treaty, there is an obligation to present a report on the progress made towards achieving economic and social cohesion.<sup>17</sup>

### ***1.5 The Added Value of EU Subsidies***

Referring to Ákos Kengyel (in Evaluating the Added Value of EU-level Regional Policy) – he is an associate professor at Corvinus University Budapest -, without the EU's commitment to reduce disparities among its regions, the future of the integrative process would be undermined. It is indeed necessary through the Regional Policy to have an active device by which the welfare benefits of economic integration are spread across the EU.

Following the logic of the common market, however, it is important to note by quoting Kengyel, that *“the measures promoting social and economic (and territorial) cohesion are not meant to replace the EU policies driven by free market principles, but are applied parallel and harmonized with them”*<sup>18</sup>.

The cohesion measures are a permission to intervene in the economies, although within the general framework of the market. The contribution of EU Funds according to the Commission's calculations (based on HERMIN model) has positive effects on growth, reduction of unemployment, compared with the case without subsidies. The EU subsidies also have the effect of promoting higher level of investment both in human and physical capital in the least

<sup>17</sup> The Commission adopted the First Cohesion Report at the end of 1996. This was the basis for the 'Agenda 2000 - for a stronger and wider Union,' which led to the reform of Cohesion Policy adopted by the Council in June 1999.

<sup>18</sup> Kengyel, Á.: Evaluating the Added Value of EU-level Regional Policy, p304-325



prosperous regions. In the four “Cohesion countries”, during the period of 1989-99, the ratio of the subsidies reached a significant value compared with their GDP (see Table 1).<sup>19</sup>

Estimations by the Commission for the period 2007-13 show that Cohesion Policy will have positive effect with absolute GDP being 5-10% higher than without the subsidies in most of the new Member States. This amount suggests how important it is to enjoy the benefits of the Funds. Without the EU subsidies the less prosperous Member States would not be able to catch up in the mid-term.

Another aspect of the added value of EU Funds is that it remains an additional financial injection for the particular Member State, which is not to forget a help to boost the economy, but not the only budgetary allocation for the goals. Therefore the entire funds system functions properly only when it is embedded into the already existing national development policy. EU Cohesion Policy is an added stimulus, especially because it only displays a slight amount calculated to the GDP. Since the total amount of funding for a country is decided by the European Commission, the national development plan is drawn up in line with this amount.

### Two Approaches

Through the course of the political economy philosophy two opposite approaches have emerged regarding the reduction of regional disparities. The first one, the **interventionist or continental approach** was based on reconstructed Keynesian philosophy in terms of political ideology. Its basic idea is that the state should intervene in the economy, by giving support for the industry. According to that approach, regional economic disparities emerged through structural weaknesses, low investments, drain of financial capital to rich regions, inadequate government participation in regional development. Reviving disadvantaged regions by proactive policies at regional and local level, and public investment in infrastructure should be the baselines for development. The decentralization of regional regeneration powers to local and regional agencies and authorities is for that approach the receipt for successful policy-making. Contrary to the first approach, the second one, the **free market approach** is related to the neoclassical economy ideology. This ideology prefers smaller state sector, but greater enterprise culture than the ideology of the interventionist approach. According to the free market approach, the causes for

---

<sup>19</sup> Second Report on Economic and Social Cohesion, 2001

regional disparities are inefficiency problems within the regions due to labour market rigidities and the lack of entrepreneurial culture, and besides these, excessive state intervention. The approach to reviving disadvantaged regions would be deregulation of regional labour markets and tax incentives to improve efficiency. The regional policy should be based on minimal expenditure and selective assistance.<sup>20</sup>

However, the experience shows that the EU has built on the continental approach when creating Cohesion Policy. In practice it means that EU Funds are treated as compensation for market failures which became side payments for governments, who otherwise would not deepen integration. Another feature of this approach is that large projects are funded for individuals who otherwise would not invest such great amounts. The effect of “subsidy shopping” is high (the permanent possibility of taking direct subsidies). Thus the case of subsidizing should be handled carefully.

*i Table 1 Economic Effects of the Structural and Cohesion Funds*

	Greece	Ireland	Spain	Portugal	EUR4
<b>% GDP</b>					
1989-93	2.6	2.5	0.7	3.0	1.4
1994-99	3.0	1.9	1.5	3.3	2.0
2000-06	2.8	0.6	1.3	2.9	1.6
<b>% Gross fixed capital formation</b>					
1989-93	11.8	15.0	2.9	12.4	5.5
1994-99	14.6	9.6	6.7	14.2	8.9
2000-06	12.3	2.6	5.5	11.4	6.9

*Source: European Commission*

### ***1.6 Debating on the Future of Cohesion Policy***

Different events give occasion for debating on the future of Cohesion Policy. As the second largest expenditure of the EU budget, after the Common Agricultural Policy (CAP) it is a sensitive political issue in terms of the level of support and distribution. Since the late 1980's – as seen above – the amount of expenditure on Cohesion Policy has been increasing. However, the ratio of the amount to be spent on Funds compared with the EU's GDP will continue to be rather low. Since 2000 restrictions were introduced concerning the upper limit of subsidies, which may

<sup>20</sup> Wallace, H, Wallace, W, Pollack, M

not exceed 4% of each beneficiary country's GDP. In contrast to the lower ratio, the macroeconomic effects of the subsidies have proved to be far-reaching.

The EU's new Draft Treaty, the **Lisbon Treaty** (not in force yet) adds another objective to Cohesion Policy: territorial cohesion, referring to "*economic, social and territorial cohesion*"<sup>21</sup>. According to that change in the objectives, also the scope of the subsidies would be extended: "Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps."<sup>22</sup>

Danuta Hübner, Commissioner for Regional Policy (since 2004) is convinced that "*European Cohesion Policy is well set to meet the challenges lying ahead. The most important asset is the system of multi-level governance, based on accountability and partnership.*"<sup>23</sup>

Already the Second Report on Economic and Social Cohesion (2001) defined some basic questions for the future of Cohesion Policy, namely: What will be the role of cohesion policy in an enlarged EU in the context of rapid economic and social change? How is it possible to further economic convergence and preserve the European model of society? How should Community policies be made more coherent?<sup>24</sup> Wherever the answers lay to these questions, the Member States will have to deal with the challenges, since the EU Funds will remain as main instruments available at EU level to generate competitiveness through growth and employment (the "Lisbon goals"). The great challenge for the enlarged EU is to use the potential for growth which is available in its regions, especially in those lagging behind.

In the next chapter, the structure and the effects of Cohesion Policy in terms of economic growth and overall welfare will be examined on two particular Member States out of the 1989-2006 "Cohesion countries": Ireland and Portugal.

---

<sup>21</sup> Lisbon Treaty, Art 158 amendments

<sup>22</sup> Lisbon Treaty, Art 158 amendments

<sup>23</sup> Danuta Hübner, European Commission, Archive

<sup>24</sup> Second Report on Economic and Social Cohesion, 2001

## Chapter 2. The Cohesion Countries: Ireland and Portugal

### 2.1 Economic History

#### 2.1.1 End of the Second World War: Europe's Reconstruction

After the Second World War, Europe witnessed great economic growth through the reconstruction period. The European economies needed planning for their activities. An important movement towards the long standing peace and prosperous growth was the signing of the Treaty establishing the European Coal and Steel Community (ECSC) in 1951, in Paris by France, Germany, Italy and the Benelux countries. It was the first step to develop a common European economic entity through the first supranational institution. According to Article 2, the aim of the ECSC was “to contribute, through the common market for coal and steel, to economic expansion, growth of employment and a rising standard of living”.<sup>25</sup> The success of the ECSC got the six countries to decide on expanding their cooperation to other economic fields. In 1957 by signing the Treaty of Rome, the European Community (European Economic Community, since 1992 European Union) was established. The common market philosophy – free movement of goods, services, people, and capital – began to function.

The economic boom in Europe lasted over 30 years, until the first oil crisis hit the world's economy in 1973. The oil embargo was proclaimed by the OAPEC in response to the US decision on supplying the Israeli military during the Yom Kippur war. Some European countries were direct victims of this embargo, but it was not uniform across the continent. The second oil shock occurred in 1979 as a result of the Iranian Revolution. Both crisis hit the non-producer countries the most. Besides the direct effects of the embargo, the high oil prices, another economic downturn emerged, the stock market crash after the collapse of the Bretton Woods system (USD devaluation, ‘Nixon Shock’). These events hold up the process of economic growth in Europe.

In this historical framework it is an interesting momentum to look at the economic history of Portugal and Ireland.

---

<sup>25</sup> Treaty establishing the ECSC in 1951, Article 2.

### *2.1.2 The Pre-accession Period of Ireland and Portugal*

Portugal ruled by dictatorial regimes (since 1926 by coup d'état, Estado Novo led by Salazar since 1933) and neutral during the war became part of the growth and convergence era, while Ireland a democratic (established in 1922 as the Irish Free State under the British monarchy, then following the Irish Civil War in 1949 Ireland became a republic) and also neutral country for some reason was not able to converge to the economic developments for a long time. Ireland's economic growth occurred only after 1985, but then it began to grow at impressive rates.

#### What could have been the reasons behind the different growth paths of the two countries?

In the 1930's the policy of economic nationalization, industrial protectionism – by introducing high tariffs and quotas and import substitution – was leading in Ireland. Until 1945, Portugal, opposite to Ireland, did not intervene on governmental level in the industrialization process. For Ireland, industrialization meant the generator of the economy. However the reconstruction period emerged the intervention in the economy, thus Portugal needed to implement regulations on the new industrial policy and to create structural framework for other policies as well. All these measures favoured the export-oriented movements leaving behind protectionist policies. The Marshall Plan allocated financial supports for both countries but the amount for Ireland was almost the double (USD 133 million) than for Portugal (USD 70 million), thus the instrument needed a management system.

The period of 1950-1960 contained more significant changes in Portugal than in Ireland, namely the growth of the level of GDP and productivity, the increase in investments and the decrease of inflation and agricultural production. On the other side, Ireland suffered from massive emigration, and low economic growth was observed. In the 1950's the policy of protectionism was re-evaluated mainly because it failed to prevent the balance-of-payments crises, the rising level of unemployment and therefore the emigration. Later on the Irish government decided on opening up export-led policies and on participation in the world's economy. Establishing export markets other than the UK was an important determinant for Ireland to become a member of the EC. From the mid 1950's both countries joined several international organizations in order to open up their economies to the world. Portugal became a member of the UN in 1955, the OECD in 1961, the IMF and World Bank in 1960, and the GATT in 1962. Portugal was a founding

member of the NATO in 1949 and the EFTA in 1960, which it has left in 1985 in order to become EC member (1986). Ireland became a member of the UN in 1955, the OECD since its origin in 1961, the IMF and World Bank since 1957, and the GATT since 1967. In 1966 Ireland signed a free-trade agreement with UK. Ireland joined the EC in 1973. The result of the opening up was an increase in exports and FDI in both countries, however the annual growth rates per capita were higher in Portugal's case (by 7% compared to Ireland's 4%<sup>26</sup>), although the conditions were similar or even more favorable for Ireland. The political changes in Portugal brought hard times in home affairs. In the period of 1960-80 Portugal faced high level of emigration due to political and social issues. The Colonial War in Africa between 1961-74 ended with the independence of Portugal's colonies, thus the Portuguese empire was over. Simultaneously after the death of Salazar in 1970, the Third Republic (Carnation Revolution) was formed, changing the authoritarian dictatorship to democracy. The regime transition meant hard economic situation within Portugal, therefore IMF intervention was applied. The second oil shock occurred in 1979 causing serious damage to the external deficits. A second IMF stabilization package was introduced in Portugal with a positive effect on the economy preparing it to join the European Community in 1986. In the mean time Ireland could deepen its economic integration and liberalization. As a response to the oil shocks, the Irish government introduced fiscal expansion, which however increased public debt. By the mid 1980's, the government had recognized that the expansionary fiscal policy was not supporting the private sector positively and made a shift towards a contention in the public budget. The fiscal policy was effective in reducing the interest rate and inflation level, but it had some negative short term effects in the employment and growth rates.<sup>27</sup>

From the mid 1970's onwards, after Ireland accessed to the EC, the country caught up and later left behind Portugal in terms of economic growth. Ireland began to attract FDI and domestic investment as never before, mostly because of its fiscal consolidation policy (containing elements such as benefits for profit from all production). Furthermore another important field of Ireland's reserves was the skillful human capital (the 1970 education reform served as background). Compared to Portugal where the specialized labour force was at low level and the Portuguese export in high-tech sector was the lowest, in Ireland this rate is the highest in Europe. Along with

---

<sup>26</sup> Sequeira, T, p8.

<sup>27</sup> Sequeira, T, p8

the Community's financial assistance Ireland was able to exploit its membership through the free market and the inflow of subsidies. By the 1990's Ireland had the highest annual average rate of growth, deserving the title '*Celtic Tiger*'<sup>28</sup> (see Table 2).

ii Table 2 GDP and Population Growth in Cohesion Countries, 1988-2003

	Period	EL	E	IRL	P	EUS <sup>(1)</sup>	EU12 <sup>(2)</sup>	EU15 <sup>(2)</sup>
Annual average % change in GDP	88-98	1.9	2.6	6.5	3.1	2.6	2.0	2.0
	88-93	1.2	2.0	4.4	2.6	2.0	1.7	1.7
	93-98	2.7	3.1	8.7	3.6	3.1	2.4	2.5
	projections 98-03	3.9	3.1	6.8	2.1	3.1	2.0	2.1
Annual average % change in population	88-98	0.5	0.1	0.5	0.0	0.2	0.4	0.4
	88-93	0.7	0.1	0.2	-0.2	0.2	0.6	0.5
	93-98	0.3	0.1	0.7	0.2	0.2	0.3	0.3
	projections 98-03	0.9	0.7	1.4	0.8	0.8	0.4	0.4
GDP per head (PPS), EU15=100 <sup>(3)</sup>	1988	58.3	72.5	63.8	59.2	67.8	106.6	100.0
	1989	59.1	73.1	66.3	59.4	68.4	106.4	100.0
	1990	57.4	74.1	71.1	58.5	68.6	106.4	100.0
	1991	60.1	78.7	74.7	63.8	73.0	105.2	100.0
	1992	61.9	77.0	78.4	64.8	72.3	105.3	100.0
	1993	64.2	78.1	82.5	67.7	74.0	105.0	100.0
	1994	65.2	78.1	90.7	69.5	74.4	104.9	100.0
	1995	65.9	78.2	93.3	69.7	74.6	104.8	100.0
	1996	66.6	79.3	93.5	70.0	75.5	104.7	100.0
	1997	65.9	79.9	103.7	73.3	76.3	104.5	100.0
	1998	66.9	79.2	106.1	72.2	75.9	104.6	100.0
	1999	68.2	82.1	112.2	71.9	77.9	104.2	100.0
	2000	67.7	82.2	115.2	68.0	77.3	104.3	100.0
	projections 2001 <sup>(4)</sup>	64.7	84.1	117.9	69.0	78.1	104.2	100.0
	2002	69.0	83.4	119.1	72.5	79.0	104.1	100.0
	2003	70.4	83.8	119.9	72.1	79.5	104.0	100.0

(1) EL + E + P

(2) Growth rates 88-98 and 88-93: excluding new German Länder

(3) ESA95 methodology from 1995 onwards

(4) Greece: new population figure for 2001 (provisional census result)

Source: Eurostat (national accounts) + calculations DGREGIO

Source: European Commission

In the following sections one particular factor will be the focus point, the Community's assistance in relation to the developments in the economies.

<sup>28</sup> The term "*Celtic Tiger*" refers to the country's economic boom throughout the 1990's. The term comes from the "East Asian Tigers" phrase when South Korea, Singapore, Hong Kong, and Taiwan saw their rapid economic growth during the 1980's and 90's. Another term refers to the Irish economic boom, "*Irish Miracle*"

## ***2.2 Establishing Cohesion Policy in Ireland***

### *2.2.1 Summarizing the Role of FDI in Irish Economy*

An overall agreement emerged among the researchers about the effect of FDI on Ireland's economy during the transformation period. 50% of the Irish manufacturing employment is in foreign-owned companies. In 2000 the Irish FDI stock per capita was around 2.5 times of the overall EU. The main reasons for the FDI boom in Ireland have been the low corporate taxation, the accession to the EU and by that to the Single Market. The Single Market facilitated more the export policies than the production of the Member States. The US as the main investor in Ireland saw enormous high-tech boom during the 1980's and 1990's. Thus US companies established subsidiaries in Ireland, using its skilled labour force and taking advantage of the same language. The sectors into which FDI has flowed mostly: information technology, biotechnology, pharmaceuticals and other sectors demanding labour force with high skills. However, the jobs created by foreign-owned companies show much higher productivity than the Irish jobs. Other reasons for the massive inflows of FDI are the IDA conditions to attract and benefit from FDI: low corporate taxes, low (or abolished) tariffs, adequate infrastructure, a stable political environment, competitiveness, a competitive skillful labour market and a favourable geography. Looking at the internal effects of FDI: it has been contributing to overall economic welfare, but also to regional development by increasing the capital stock and by introducing new products and techniques. Thus FDI and EU Cohesion Policy went hand in hand towards Ireland's success.<sup>29</sup>

The next section covers the concrete impacts of the EU Cohesion Policy instruments.

### *2.2.2 Community Assistance in Ireland*

Ireland is a small country (70 282 km<sup>2</sup>) with a population of 4.2 million (in the period of 1971-2002 the population has grown by almost one-third due to less emigration), and a young country, with around 40% of its population under the age of 25. It is located on the periphery of Northwestern Europe, being the division line between Europe and the US. Through the years of

---

<sup>29</sup> Laffan, B. and O'Mahony, J.



EU membership, Ireland has been transformed from its isolation and UK economic and political dependency to an independent trading partner of the world's economies. The transformation brought along prosperity by increased trade and investments, higher level of employment, growth, and overall higher standard of living. However, these achievements are not solely due to the EU membership, but the major contribution to economic and social progress in Ireland.<sup>30</sup>

#### 2.2.2.1 Ireland's Economic Objectives and Policy

Ireland shared the policy aims of the Community, however, the exact economic policy goals had been the industrialization and agricultural production increase based. Therefore Cohesion Policy in Ireland has been viewed as an extension of industrial policy.

Already in 1952 the Underdeveloped Areas Act dealt with grants and incentives for the regions. The aim was to eliminate regional imbalances within the economy. The Industrial Development Authority (IDA) published a regional development plan in 1973. The development plan focused on the wide dispersal of manufacturing plants. The largely foreign-owned plants were directed by the IDA and also the attraction of FDI to Ireland. The IDA is one of the first institutions of its kind in the world.

Besides the IDA, another important element of the Irish development policy was the establishment of an industrial policy with several incentives (such as strong social partnership and low corporate tax) for both Irish and foreign companies. This policy led to the improvement of public finance, reducing debt and to positive trade balance.<sup>31</sup>

By the time of accession the unemployment rate was 5.7% which grew heavily until the mid 1990's reaching almost 15%, and then it started to descend. According to the newly introduced policies the increase in employment occurred in the service sector. In Ireland the social partnership had strong ties for a long time. In 1987 a "Programme for National Recovery" the so-called "Social Partnership" was agreed upon between the Irish government, the unions and the employers where the unions promised wage moderation in exchange for lower taxes.

---

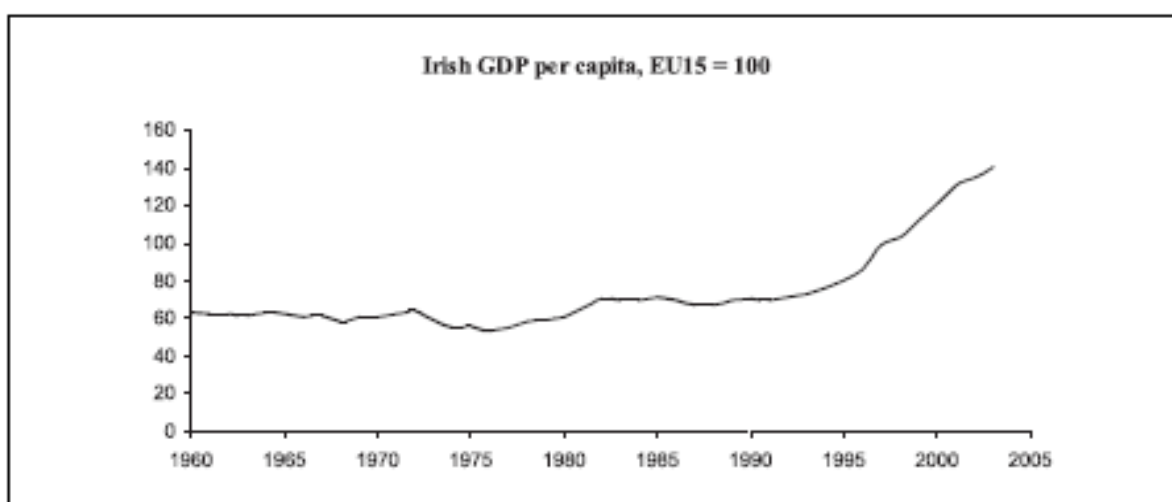
<sup>30</sup> Laffan, B. and O'Mahony, J.

<sup>31</sup> Laffan, B. and O'Mahony, J.

To give some foretaste of the growth: the GDP in real terms increased by four times and GNP level by three times between 1973-2003. However, the real growth began only in the end of 1980's, while in other "Cohesion countries" the growth began earlier and ended before the "Irish Miracle". In the mid 1990's Ireland already exceeded the EU 15 average growth rate.

Irish GDP per capita - at PPS - was 138.4% of the EU25 average in 2004 which was a great contrast to its performance from the 1950s until the 1980's (when it started to grow from 60%, seen in the Table 3).

*iii Table 3 Irish GDP per Capita in EU15 Average (1960-2005)*



*Source: OECD*

#### 2.2.2.2 Financial Planning

In line with the already existing developments and policies, Ireland prepared for the absorption of the EC financial assistance awarded by the Cohesion Policy of the Community.

Until today Ireland benefited from four periods of financial support by the EU: in 1989-93, 1994-99, 2000-06, 2007-13 (also before 1989, Ireland got financial contribution from the EC but not in the frame of programmes, only for separate projects). Out of these four, the highest amount was received in the period 2000-06, while the actual amount is declining according to Ireland's better economic situation.

Ireland with its entire territory was defined by the European Commission as a single Objective 1 region for the Cohesion Policy in the periods 1989-93 and 1994-99 (later on the country was divided into NUTS II regions), which was unique in the EC. While Portugal was also Objective 1 region for its entire territory, it had individual regional OPs. The regional input during the first programming period in Ireland was limited to a single institution, the Sub-Regional Review Committee, which had no statutory basis and very limited resources. This measure showed clearly how the regional system works in Ireland, since the local government structure was weaker compared to Portugal. Thus the Community's Cohesion Policy became part of the national development policy, and in Ireland the central government had control of the use of funds as long as they were coherent with the eligibility criteria.

At the beginning of Ireland's membership the ERDF was allocated on the basis of fixed national quotas. After 1984 these quotas were replaced by indicative quota rates. Ireland has been allocated a sizeable amount from the ERDF. After the accession of the other three "Cohesion countries" Greece, Spain and Portugal this proportion declined. The share in ERDF of prosperous Member States (France, Germany) has also declined through the accession. The distribution method shows that greater amount of the ERDF is spent on the least prosperous regions within the Community.

The first programming period began in 1989, after the reform of Cohesion Policy by the Single European Act. The Irish economy in 1989 faced several structural weaknesses and the Community Support Framework (CSF) aimed to deal with these problems: the low income and output levels; unemployment and emigration; budgetary constraints, public sector indebtedness, high access costs, poor infrastructure development, heavy dependency on agriculture and capital imports, weaknesses in the industrial structure, low investment levels by Community standards.

#### 2.2.2.3 Priorities under the First Programming Period 1989-93

For the period of 1989-93 EUR 11 billion was allocated for development purposes, with a Community support of more than 50%.

The two key objectives of the CSF were established in order to promote economic development in Ireland and to contribute to economic cohesion within the Community. The National Development Plan (NDP) set the priorities.

The main priorities considered the country's actual situation, therefore they were:

- Agriculture, fisheries, forestry, tourism and rural development
- Industry and services
- Measures to offset the effects of peripherality: road, port, rail and airport infrastructure and Facilities
- Investment in environmental infrastructure
- Human resources measures
- The INTERREG Community initiatives played an important role in developing cross-border cooperation (from the REGEN initiative a gas inter-connector between Ireland and Scotland was completed)

### Impacts of the First Programming Period 1989-93

According to the CSF for the period 1994-99, a preliminary analysis of the impact of the CSF 1989-93 already suggested a positive effect on key economic indicators including GDP (+2.5%), GNP (+3.5%), Debt/GNP ratio (-11.7%), total employment (+30 000), and value-added (+2.5%). The GDP per capita in 1993 was 77.7% of the EU average compared with 64.1% in 1988.<sup>32</sup> Therefore the first CSF was seen as a significant contributor to better living standards in Ireland. However, this period proved to be a learning phase in terms of structural adjustment, since the Irish institutional system was not accustomed to the new order.

#### 2.2.2.4 Priorities under the Second Programming Period 1994-99

For the second programming period 1994-99 the total planned and co-financed expenditure under the CSF/NDP was EUR 22 billion where the Community's total assistance was defined by 54%. The Irish CSF 1994-99 which was named as „a plan for employment” aimed at emerging progress in both the national goals and EU goal of greater economic and social cohesion.

Its central objectives were:

- To ensure the best long-term return for the economy by increasing output, economic potential and long-term jobs;

---

<sup>32</sup> Ex Post Evaluation on Ireland, 1994-99

- To re-integrate the long-term unemployed and those at high risk of becoming so into the economic mainstream<sup>33</sup>
- In order to achieve these wider goals they were put in four priorities:
- The direct support for productive sector in order to improve the environment for enterprises and to foster competitiveness by enhancing productive capacity and employment opportunities;
- The support of economic infrastructure which helps to compensate the country's geographic and structural disadvantages thereby ensuring wealth-generating activities;
- The assistance of human resources raises the quality of the human capital by developing skills and aptitudes of both the unemployed and employed people and by integrating the marginalized and disadvantaged;
- The support of local urban and rural development takes actions to harness the potential of local initiatives to contribute to economic development.<sup>34</sup>

The NDP set these four priorities into nine OPs. The management responsibility was assigned to a core department while the delivery was dedicated to state agencies. Important fact is that the principal elements of the Development Plan were complementary to each other. Thus the developments were coherent and implemented under the umbrella of one strategy, hereby generating greater impacts.

#### Impact of the Second Programming Period 1994-99

According to the impact assessments of the Ex Post Evaluation for 1994-99, the Irish CSF had great impact on both the supply-side and the demand-side in this period. The objectives improved physical and human capital, however, the impact of the supply-side was considered to have longer-lasting effects, than that of the demand-side. Table 4 shows that there had been a positive shift in the basic microeconomic variables. GDP grew very rapidly, at an annual average compound rate of 9%, and GDP per capita began with 89% of the EU average in 1994 and got to 105.1% in 1999; employment grew by almost a third (32.4%), in contrast to the period of 'jobless

---

<sup>33</sup> Ex Post Evaluation on Ireland 1994-99

<sup>34</sup> NDP for Ireland, 1994-99

growth' of the early 1990s, and the employment rate increased from 45.4% to 55.3%; the unemployment rate fell from 14.7% to 5.6%.

The reason for the relatively rapid fall in unemployment rate was that the CSF provided training and employment places for a number of unemployment people at a period when there were few employment prospects.

**iv Table 4 Evolution of Key Microeconomic Variables 1994-99**

	1994	1995	1996	1997	1998	1999	% Change 1994-99
GDP annual growth rate %	5.8	10	7.8	10.8	8.6	10.9	67.4
GDP per capita	10,213	11,499	12,585	14,411	16,351	18,438	80.5
GDP pc % of EU average	89.0	93.0	92.8	96.4	102.1	105.1	16.1pp
Employment	1,220,600	1,281,700	1,328,500	1,379,900	1,523,000	1,615,675	32.4
Part-time employment <sup>1</sup>	137,400	153,900	152,100	169,900	249,600	266,500	94
Employment rate %	45.4	47.1	48	49	52.9	55.3	9.9pp
Unemployment	211,000	177,400	179,000	159,000	125,025	95,450	-54.8
Unemployment rate %	14.7	12.2	11.9	10.3	7.6	5.6	-9.1pp
Long-term unemployment	128,200	103,300	103,300	86,300	63,500	41,600	-67.6
LT unemployment rate %	9.0	7.1	6.9	5.6	3.9	2.5	-6.5pp
Note: Some of the increase between 1997 and 1998 is due to a change in the CSO's methodology and is reflected in part-time employment.							

*Source: Ex post evaluation, Central Statistics Office*

The next table (Table 5) shows how all sectors experienced growth (in the volume of GDP) during the period 1994-99.

The following sectors achieved the highest level of growth: industry (accounted for 58.9% of the total growth in GDP); distribution, transport and communication (17.9%); and other services (21.8%). Within the industry sector substantial growth was observed in the fields of chemicals, computers, instrument engineering and electrical engineering. The output of agriculture, forestry, and fishing increased only by 4.9% over this period, accounted for 0.7% of the total growth in GDP. Except of agriculture, forestry and fishing sector, where the employment level declined annually by 1.5%, all other sectors experienced growth in terms of employment. Four sectors grew rapidly: transport and telecommunications, financial and other business services, construction and hotels and restaurants.<sup>35</sup>

<sup>35</sup> Ex Post Evaluation on Ireland 1994-99

v Table 5 GDP Growth by Sector, 1994-99 (constant prices)

Sectors	% of GDP 1993	% of GDP 1999	% Increase in sectors output (measured in GDP) 1994-1999	% Contribution to GDP Growth 1994-99
Agriculture, forestry and fishing	9.2	5.8	4.9	0.7%
Industry (including building)	34.2	44.0	114.4	58.9%
Reproduction of recorded media	2.2	1.9	43.2	-
Chemicals (incl. man-made fibres)	6.5	15.3	293.3	-
Computers and Instrument Engineering	4.4	6.6	149.9	-
Electrical Engineering	1.2	2.3	209.1	-
Distribution, transport and communication	16.4	17.0	72.6	17.9%
Public administration and defence	5.6	3.7	8.1	0.7%
Other services (including rent)	40.1	32.8	36.1	21.8%
Adjustment for financial services	-4.7	-3.8	34.3	-2.4%
Statistical Discrepancy	-0.7	0.6	-237.4	2.5%
				100%
<b>Gross domestic product at constant factor cost</b>	<b>100.0</b>	<b>100.0</b>	<b>66.4</b>	

Source: Ex Post Evaluation Report, 1994-99

According to the Economic and Social Research Institute (ESRI), it has estimated that Cohesion Policy over the first two programming periods (1989-93 and 1994-99) would permanently increase GNP by 2%.

Positive effect was shown in term of monetary policy, by joining EMU and relinquishing the Irish pound, Ireland saw a fall in interest rates, which created additional boost to growth.

Overall, it can be stated that the Irish CSF in the period 1994-99 was very effective. In particular, most targets of the individual OPs had been achieved. Although the targets and their indicators reflect more the economic and social trends in macro level, therefore the overall effectiveness is harder to asses. A number of factors in the management part supported the effectiveness of the CSF, such as effective planning, close monitoring, mid-term evaluations and re-programming, the established delivery bodies, and the complementarities across the OPs.<sup>36</sup>

However, the issue of regional development with the aim of helping the unbalanced regions to converge was not well covered through the implementation of CSF.

<sup>36</sup> Ex Post Evaluation on Ireland 1994-99

Although in the period 1994-99 eight Regional Authorities were established to provide reviews on the implementation of the sectoral programmes, and to secure balanced regional development, the rapid economic growth over the period, with particularly rapid rates of the growth in the Greater Dublin Area (the more prosperous east and southern parts), resulted in increased concerns in relation to imbalanced development. Because of the institutional changes the government had introduced, the implementation and the management functions began to work properly.

#### 2.2.2.5 Priorities under the Third Programming Period 2000-2006

The NDP for the programming period 2000-2006, was the largest and most ambitious investment plan for Ireland. Unlike its two predecessors, the NDP 2000-06 was not primarily based on EU Structural and Cohesion Funds. It included an investment package of EUR 57 billion mostly of public, private (mainly exchequer) and less EU funds (11%, EUR 6 billion).

The economic transformation was not beneficial for all sectors of the society. Poverty and social exclusion emerged in both rural and urban areas. The NDP had to be considered through these images.

The key objectives for NDP 2000-06 became broader than before:

- Continuing sustainable national economic and employment growth;
- Consolidating and improving Ireland's international competitiveness;
- Fostering balanced Regional Development;
- Promoting Social Inclusion.<sup>37</sup>

Under the first two programming period of Cohesion Policy the entire country was classified as an Objective 1 region. However, according to the economic performance, parts of Ireland have already exceeded the eligibility criteria. Two NUTS II regions were created: the Border, Midland and Western Region (BMW) remains an Objective 1 region, while the Southern and Eastern Region (S&E) is classified as a transitional “phasing out” region (the S&E still qualifies for funding but on a declining scale). The establishment of the BMW and S&E significantly increased the influence of the regions in the NDP procedures, and it created responsibility to

---

<sup>37</sup> NDP for Ireland, 2000-06



Regional Assemblies through assisting regional OPs for the first time, leaving behind the centralized system. The Development Plan aimed “to achieve more balanced development in order to reduce the disparities between and within the two regions”<sup>38</sup>.

Seven OPs were identified in the NDP 2000-06. These investments were allocated to projects that improve infrastructure, and develop a highly-skilled and flexible workforce, they should also promote social inclusion and distribute the benefits of Ireland's economic success in a balanced way through the country. Supports for healthcare, social housing, education, roads, public transport, rural development, industry, water and waste services came into foreground. Improving physical and human resource infrastructure remained as a permanent objective. The infrastructure in large urban areas, especially the Greater Dublin Area, is under pressure from the boost in commercial and business activities which bring along increasing population. By contrast rural and smaller urban areas are still lagging behind.

#### Impact of the Third Programming Period 2000-06

As a macroeconomic effect, according to the Economic and Social Research Institute (ESRI) the national GDP towards the end of the period was around 1.5% higher with EU subsidies. The effects, as ESRI stated, will continue in the long-term and in 2015 GDP will still be 0.7% higher because of the EU subsidies than otherwise.

Over the 7 years of the programming period the GDP growth rate was 6%, a small slowdown emerged. However, the GNDI increased more steadily, therefore the effect of the slowdown GDP growth could not be felt. The pattern of growth changed during this period: the construction – especially house building - sector started to grow. This changed proved to be positive, since the income and employment started to spread from the S&E region to the BMW region. The output in housing rose by 75% and prices doubled. The S&E region suffered major congestion within the existing serious housing situation and this encouraged businesses and people to move especially outside the Greater Dublin Area.

Along with the industrial promotion, authorities were encouraging new enterprises to locate in the region and introducing incentives for urban development, by emerging decentralization of governmental instruments. The government’s idea is to ensure that people in the poorer regions

---

<sup>38</sup> NDP for Ireland, 2000-06

enjoy a higher standard of living, including access to local services. As a consequence of NDP, the employment level increased and the unemployment level fell under 5% by 2006. After the Eastern enlargement in 2004, the net inward migration was higher (almost 300 thousand immigrants, by 2006 15% of total employment), effecting the economy growth in a positive manner. The growth in population and employment from 1987 onwards generated great burdens on infrastructure. However, according to the EU Cohesion Policy, several areas were supported – transport system, water supply – but through the years new demands occurred. Therefore the NDP 2000-06 was framed to deal with the infrastructural deficit. Public finances were balanced through that period, and public expenditure remained unchanged, thus the budget was kept in surplus. All the good figures, despite the boom in house prices (see Table 6).<sup>39</sup>

vi Table 6 Microeconomic Developments, 1995-2006

	1995-1999	1999-2006	1999-2001	2001-2004	2004-2006
<b>GDP growth (annual average growth rate, % pa)</b>					
EU25	2.6	2.2	2.9	1.7	2.4
Ireland	9.8	6.1	7.7	5.1	5.9
<b>Inflation (harmonised consumer price index, % rise pa)</b>					
EU25	2.1	2.2	2.5	2.1	2.2
Ireland	2.0	3.6	4.6	3.7	2.4
<b>Public sector balance (% GDP)</b>	<b>1995</b>	<b>1999</b>	<b>2001</b>	<b>2006</b>	<b>Average 2000-2006</b>
EU25	:	0.8	-1.2	-1.5	-2.2
Ireland	-2.0	2.7	0.9	2.9	1.8
<b>Public sector consolidated debt (% GDP)</b>					
EU25	:	:	61.1	61.9	61.8
Ireland	89.6	48.4	35.6	25.1	31.3
<b>External balance (% GDP)</b>					
EU25	0.9	0.9	0.9	0.5	1.0
Ireland	14.0	14.0	15.7	10.7	14.4
<b>General government expenditure (% GDP)</b>					
EU25	52.5	47.1	46.4	46.9	46.8
Ireland	41.1	34.0	33.3	34.2	33.4
<b>General government investment (% GDP)</b>					
EU25	2.7	2.3	2.4	2.5	2.4
Ireland	2.3	3.1	4.3	3.7	3.8
<b>General government investment (% gen. gov. exp.)</b>					
EU25	5.2	4.9	5.2	5.3	5.0
Ireland	5.6	9.1	12.9	10.8	11.4

: = not available

Source: Eurostat

Source: Eurostat

<sup>39</sup> Ex Post Evaluation on Ireland, 2000-06

#### 2.2.2.6 Priorities under the Fourth Programming Period 2007-2013

Because of Ireland's permanent economic success, the country no longer qualifies for the same volume of EU funding as in the past three periods (a decline was seen already by the 2000-06 period). However the expected macroeconomic impact of the new programmes will therefore be significantly lower.

For the programming period 2007-13, Ireland receives EUR 8 billion from Structural Funds which concentrates mainly on the Lisbon Strategy objectives on growth and jobs. The total amount is EUR 184 billion, which is divided among different investment types. The usual term National Development Plan has been renamed to National Strategic Reference Framework (NSRF) however its functions remained the same, as laying down the strategic goals and objectives for the actual period.

According to the NSRF for Ireland 2007-13, the following strategic priorities are defined:

- Promoting human capital investment by improving workforce – with a special programme for migrants;
- Supporting innovation, knowledge and entrepreneurship in the regions – in order to boost Research and Development (R&D) in areas and institutions (of technology) where this has been lacking; the aim is to double the number of PhD graduates over the period; Ireland will also continue to develop FDI;
- Strengthening competitiveness, attractiveness and connectivity of the National Spatial Strategy (2002) - by improving access to quality infrastructure and promoting environmental and sustainable development.<sup>40</sup>

The priorities are divided into only three OPs.

Ireland has opted for a niche approach. In the framework of the niche Flagship projects will be implemented on R&D areas (especially in institutions of technology).

#### 2.2.3 *Future of Ireland's Miracle*

The Irish economy has performed extremely well over the past decade by growing income per capita above the EU average. Although the period of rapid catch-up is over and growth in

---

<sup>40</sup> NSRF for Ireland 2007-13

productivity has slowed down and the domestic demand has fallen, the fundamentals of the economy remain. In the short run, important policies, such as wage restraint and labour market flexibility have to be applied in order to maintain the economic activity level and to continue to attract FDI. In the long run, productivity growth and increase in participation rates will be necessary to reach real income growth and to achieve the goals of development plans. The NSRF consists of large infrastructural investment programmes, which need stable environment to perform. Although institutions are well established, to satisfy the demand for better public services remains a task. Likewise a long term problem is the ageing of the population that affects public finances. However, Ireland was and remains particularly sensitive to external world economic developments especially to the current financial crisis, as a small, open, export-orientated country.

The Economist Intelligence Unit (EIU) in an economic survey on Ireland foresaw the depression for Ireland from the end of 2008. Among the causes would be: collapse in the construction sector, large decrease in private consumption and sharply negative export growth. According to EIU growth should resume from end of 2011 (figures are subject to risk). The budget deficit is estimated to have reached 6.4% of GDP in 2008 and is forecast to rise over 12% of GDP in 2009-10. From 2011 the deficit is expected to fall. Unemployment will rise sharply over the forecast period. The level depends on the proportion of immigrants.<sup>41</sup>

Following the rejection of the Lisbon treaty by Irish voters in a referendum on June 12th 2008, the country's position in the EU has been undermined. The next referendum should follow in 2009.

However, it seems that the good times are over for now, as an editorial in the Irish Times stated: *“We have gone from the Celtic Tiger to an era of financial fear with the suddenness of a Titanic-style shipwreck, thrown from comfort, even luxury, into a cold sea of uncertainty.”*<sup>42</sup>

The following section gives an insight to the developments and the effect of Cohesion Policy on Portugal.

---

<sup>41</sup> EIU, Economic survey of Ireland, 2008

<sup>42</sup> No Time for Whingers, Irish Times, January 2009

## ***2.3 Establishing Cohesion Policy in Portugal***

### *2.3.1 The Iberian Peninsula*

Portugal is the most Western country in Europe, located on the Iberian Peninsula with Spain, therefore along with Ireland it belongs to the peripheral states of the EU. Portugal has 10.4 million inhabitants (2004) on a territory of 92 141 km<sup>2</sup> (including Azores and Madeira).

The accession of Spain and Portugal in 1986 brought a new geo-political dimension to the EC and strengthened the strategic position of the EC in the Mediterranean and in Latin America boosting further development of the European system of cohesion and solidarity. Their EC membership was decided more on political basis than by economic considerations. Almost forty years of authoritarian regime kept both Iberian countries in the margins of the process of European integration, thus the EC membership finally ended the political isolation. Europeanization and democratization belonged together for the countries.

The democratization process was supported by the subsidies arriving from EC membership.

EU funds largely influenced the success of the Iberian countries in terms of GDP, investments and employment, although the effects of subsidies on the economies could have been higher as shown in the next section.

In terms of FDI, Portugal and Spain have been less successful as their counterpart “Cohesion country” Ireland. However, figures show that there has been a positive shift in the level of FDI inwards after their accession. In Portugal FDI inflow (larger than outward) was mainly detected in the central regions (Lisbon area) where knowledge-intensive activities have been increasing since the accession (mainly in the automotive and textile industry). A great additional impact for FDI in Portugal – similar to Ireland - was, however, the joining of the EMU circle (and then introducing the Euro) from its beginning. The greater exchange rate and price stability along with falling cost of labour and capital has helped to boost these processes.<sup>43</sup>

---

<sup>43</sup> Lopes, J.

### *2.3.2 Territorial and Institutional Framework of Portugal*

Portugal has long been characterized by a traditionally centralized government with no formal regional level of governance in the mainland (five mainlands: Norte, Centro, Lisboa, Alentejo, Algarve), and with strong municipalities. At the central level the Ministry of Environment, more precisely the Secretary of State for Regional Development (SEDR) is in charge of regional policy. At regional level the two autonomous regions are in the islands of Azores and Madeira.

Two-thirds of the Portuguese population is concentrated on the coastal areas. The territory is covered by various landscapes and habitats. According to the EU regional units (NUTS) for the programming periods Portugal was considered to be an Objective 1 region (NUTS II regions).

Similar to Ireland, Portugal faces great regional disparities as well. In 1993 the distance between the most prosperous regions (Lisbon and Tagus Valley) and the less prosperous regions (Azores) increased in terms of GDP per capita. Therefore regional disparities are closely linked with regional assets for growth within the separate regions. Among the OECD countries, Portugal demonstrates the third highest level of regional disparities in terms of unemployment rate.

According to the OECD Territorial Review (2008), only a limited number of Portuguese regions have exploited their assets, and by the better performances of these regions they would contribute even better to national growth. For the better performance first their weaknesses should be properly addressed. Many other regions suffer from specific handicaps and have been unable to contribute to national growth despite their particular potential. As a consequence of the regional situation, regional development is regarded as an area of economic development.

From the beginning of EC membership it has been clear that the issue of the Regional Policy was a challenging matter, considering that there was no previous tradition of implementing a coherent regional policy.<sup>44</sup>

The first concerns towards regional policy came along only in the late 1960's, with the introduction of a development plan. This was based on the urban network and development poles. In 1979, Regional Coordination Commissions (CCR) were established, corresponding to the planning regions. Portugal's accession brought new challenges to the regions structural situation, since they were not sufficient for the creation and implementation of the Community's funding

---

<sup>44</sup> OECD Territorial Review for Portugal, 2008

programmes. Therefore the Ministry of Territorial Planning and Administration was established. Its tasks covered not only the regional development planning, and environment and spatial planning but also the management of the Structural and Cohesion Funds.

Up to the present day, similar to Ireland, Portugal went through four programming period (the last one is currently operating): CSF 1989-93, CSF 1994-1999, CSF 2000-2006, CSF 2007-13. With the first CSF a new phase of regional development policy began in Portugal, compared to the previous development policy stages, a more structured intervention with decentralized management, monitoring and evaluation, regional units were created, and an effort was made to promote the participation of the local economic agents and actors. However this system was still lagging behind the well structured system of Ireland.

During the second programming period in 1994-99 the scope of the CSF had been widened by introducing several sectoral programmes in areas such as health and education. Through the programming phase the participation of civil society was better included in the territorial planning; and the instrument of public-private partnership (PPP) was also better supported.

In the third CSF 2000-06, greater attention was paid to the territorial dimension of the interventions, through an increase of the financial endowment of the regional programmes and the establishment of a sectoral investment quota for the regional programmes. For that purpose several regional institutions deconcentrated from the central public administration, and have been involved in the management of these regional programmes. This all led to a more coherent development strategy than before.<sup>45</sup>

### *2.3.3 Community Assistance in Portugal*

#### *2.3.3.1 Priorities under the First Programming Period 1989-93*

In this period, Portugal received the highest ratio among the other “Cohesion countries” according to its GDP (3.5%).

The focus of the CSF 1989–93 was on the development of the existing low level infrastructures. In fact, 46.6% of the CSF for Portugal was allocated to public capital formation while in the case of Ireland, the emphasis was on private capital formation (by 44.3%). The additionality principle

---

<sup>45</sup> Ex Post Evaluation for Portugal 1994-99

(co-financing by public sector) meant a burden for the Portugal government, however more than 50% of the Funds came from the Community from the total amount of EUR 10 billion.

The CSF defined two strategic objectives for the programming period 1989-93, which were then selected into priorities under the Regional Development Plan (RDP):

- The real convergence between Portuguese and European economies;
- The promotion of the internal economic and social cohesion.

The essential tool was to bring Portugal closer to the Community's average in terms of economic figures, but also to provide assistance for the least developed regions of the country.

### Impact of the First Programming Period 1989-93

From the mid 1980's Portugal saw real GDP growth, also compared to the EU average, the highest rate 5.5% turned out between 1986-90, from the exact accession date towards the benefits received from the EC. Between 1991 and 1994, the real GDP annual average growth rate was only 1.1% (see Table 7). However, later on Portugal faced recession, between 1993-96, which was shown by the negative rate of growth, the process of real convergence between Portugal and EU countries was effectively interrupted.<sup>46</sup>

vii Table 7 Real GDP Growth in the EU and Portugal (Annual % change), 1976-1994

Territory	Unit	1976-85	1986-90	1991-94	1991	1992	1993	1994
Portugal	%	3,0	5,5	1,1	4,4	1,1	-2,0	1,0
EU	%	2,3	3,2	1,3	1,7	1,2	-0,4	2,8
Difference	p.p.	0,7	2,3	-0,2	2,7	-0,1	-1,6	-1,8

Source: Ex Post Evaluation, 1994-99

Despite the relative development in terms of growth during the 1980's and 1990's, Portugal faced serious problems within the society.

According to the Ex Post Evaluation, the following development problems were existing in Portugal:

- The specialized character of the national market;

<sup>46</sup> Ex Post Evaluation for Portugal 1994-99



- The low levels of education attained by Portuguese population and the under qualification of workforce;
- The fragility of the entrepreneurial fabric;
- The insufficiency of infrastructures and facilities;
- The peripheral situation within Europe;
- The structural weakness of Portuguese agriculture;
- The imbalances of the urban network and weaknesses of the fabric of average cities;
- The asymmetries of development; misuse of the endogenous development potential of some regions.

Beside the negative factors, the strong attributes were the following:

- The natural resources;
- The geographic strategic position in an Atlantic intercontinental perspective;
- Connection of the Iberian economies.<sup>47</sup>

The above mentioned problems had to be solved by the following CSF strategies.

#### 2.3.3.2 Priorities under the Second Programming Period 1994-99

The main strategic objectives of the CSF 1994-99 concentrated on the goal: “To Prepare Portugal for the XXI Century”, more precisely:

- To prepare Portugal for the new European context, by promoting a sustained growth and enhancing the value of Portugal as the link of Europe’s relationship with the World;
- To prepare Portugal for the competition of a global economy, by qualifying the human resources, creating infrastructures and networks for the internationalization and modernization of the economy, improving the competitiveness of businesses, reducing the regional disparities;
- To prepare Portugal for a way of life with more quality, by improving the environment in the perspective of sustainable economic development, and promoting the quality of urban

---

<sup>47</sup> Ex Post Evaluation for Portugal, 1994-99

life, improving the conditions of health and of social protection, and also modernizing the Public Administration.<sup>48</sup>

Regarding these overall goals, the CSF/RDP 1994-1999 maintained the two strategic objectives of the CSF/RDP 1989-1993:

- The real convergence between Portuguese and European economies;
- The promotion of the internal economic and social cohesion.

EUR 20 billion (the double of the first CSF) was allocated to the overall CSF 1994-99, co-financed by the EU by 52%.

The priorities were the following:

- Qualification of human resources and employment with the aims: improvement of schools network, education quality and its articulation with the economic fabric; development of the scientific system and support to innovation;
- Reinforcement of competitive factors of the economy with the main aims: reinforcement of the competitiveness and attractiveness of Portuguese economy to international investors; reinforcement of the dynamics of the entrepreneurs; improvement of the workforce qualification level;
- Promotion of life quality and social cohesion with the main aims: environment protection and improvement of urban environment; improvement both of healthcare services and action against economic and social exclusion;
- Strengthening of the regional economic basis with the general aims: to reinforce the regional economy through the support of infrastructures (transport and facilities), and support of businesses; to contribute to the settlement of population in less developed regions in order to avoid demographic concentration in Lisbon and Oporto; to improve life conditions of the concerned populations, particularly regarding environment.

The priorities were divided into fourteen OPs.<sup>49</sup>

---

<sup>48</sup> CSF for Portugal, 1994-99

<sup>49</sup> RDP for Portugal, 1994-99

### Impact of the Second Programming Period 1994-99

The Ex Post Evaluation Report stated that the CSF 1994-99 had relative net effects on the economy, more precisely: 7.7% of the average gross private domestic investment during the 1994-2000 period was related with the CSF execution. During the programming period 1994 99, the average annual growth of the Portuguese real GDP was 3.4%, and the contribution of the CSF to this growth was 0.42 percentage points. It was expected a 6% convergence of the Portuguese GDP per capita with the Community average. Also, it was initially expected that half of this would be induced directly by the Cohesion Policy. In fact, that target was surpassed in 0.8 percentage points.<sup>50</sup>

However, it should be emphasized that the difference between the maximum and the minimum values of GDP per capita per NUTS II regions evolved in an unfavourable way from 1993 to 1999 deepening the regional disparities in social and economic terms.

The evaluation also noted that 1.6% of the 1999's employment was directly related with the CSF implementation (about 77 thousand new jobs). This estimate is not far below the initial target defined by the CSF (100thousand new jobs). It should be noted, however, that about 30% of the new employment was in construction activities (non-permanent jobs).

*viii Table 8 Real GDP Growth in the EU and Portugal (Annual % change), 1994-1999*

<b>Territory</b>	<b>Unit</b>	<b>1994-1999</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Portugal	%	3,4	1,0	4,3	3,5	3,9	4,5	3,5
EU	%	2,5	2,8	2,4	1,6	2,5	2,9	2,7
Difference	p.p.	0,9	-1,8	1,9	1,9	1,4	1,6	0,8

*Source: Ex Post Evaluation, 1994-99*

Table 8 shows that during the period 1994-1999, the real GDP average annual growth rate was 3.4% which brought a global change in the Portuguese GDP per capita rates (4.6%) as well.<sup>51</sup>

Portugal enjoyed low level of unemployment although the regional disparities.

The Portuguese economic growth model has been labour intensive (employment rates higher than the EU countries), with low rates of labour productivity and low unemployment. It showed values

<sup>50</sup> Ex Post Evaluation for Portugal, 1994-99

<sup>51</sup> Ex Post Evaluation for Portugal, 1994-99

of about half the EU average although the recession period in the mid 1990's brought lower rates of employment due to economic difficulties (see Table 9).<sup>52</sup>

*ix Table 9 Employment, Productivity, Labour Costs and Unemployment Indicators for the EU and Portugal, 1994-1999*

Indicator	Unit	Territory	1994-1999	1994	1995	1996	1997	1998	1999
Employment	Annual % change	Portugal	0,9	-0,2	-0,7	0,5	1,7	2,7	1,7
		EU	0,9	-0,2	0,6	0,6	0,8	1,6	1,8
Labour productivity	Annual % change	Portugal	2,5	1,2	5,0	3,0	2,2	1,8	1,8
		EU	1,6	3,0	1,8	1,0	1,7	1,3	0,9
Real unit labour cost	Annual % change	Portugal	n.d.	-3,5	-1,3	n.d.	-0,5	-1,4	-0,6
		EU	-1,0	-2,4	-1,1	-0,7	-0,9	-1,0	0,2
Employment rate	% pop. 15-64	Portugal	64,5	63,4	62,6	62,8	64,0	66,6	67,4
		EU	60,6	59,7	59,9	60,1	60,5	61,2	62,3
Unemployment rate	% active pop.	Portugal	6,3	6,9	7,3	7,3	6,8	5,1	4,5
		EU	9,9	10,5	10,2	10,3	10,1	9,5	8,7

*Source: Ex Post Evaluation, 1994-99*

Overall, the evolution of the Portuguese labour market and economy showed figures of development during the second programming period.

The development plan showed more coherence and appropriateness compared to the first one, but it was still too soft in terms of the Community's expectations to support convergence and growth. The implementation part was also criticized.

According to the evaluation report the following weaknesses were identified in the CSF strategy:

- Less adequate Information System;
- Hesitation in political orientations;
- Insufficient support of the national statistic system;
- Take-off difficulties;
- Reduced argumentation of the programming and establishment of unrealistic targets;
- The existence of non-quantified objectives;
- Reduced social partnership;
- Reduced exploitation of synergies;
- Regional OP: strategic objectives very ambitious;
- Reduced capacity of adaptation to regional and local needs.

<sup>52</sup> Ex Post Evaluation for Portugal, 1994-99

### 2.3.3.3 Priorities under the Third Programming Period 2000-06

For the programming period 2000-2006 Portugal had been allocated nearly EUR 35 billion from the Cohesion Policy. The CSF target was again assistance mainly for regions lagging behind in development (entire territory under being Objective 1) by increasing productivity and restructuring of the economy aimed at reducing disparities with other EU Member States.

The general priorities were the following:

- To improve the level of skills among the population and promote employment and social cohesion;
- To modify the production profile for the benefit of future activities;
- To better exploit the territory and the country's socioeconomic position;
- To encourage sustainable development and national cohesion.<sup>53</sup>

The sectoral programmes had been implemented in various regions in response to their difficulties in areas such as education, employment, training and social development, science, technology and innovation, information society, health, culture, agriculture and rural development, fisheries, economy, accessibility and transport, environment technical assistance. Overall 19 OPs were established. The high number refers to the new step that each region adapted an individual regional OP for their particular developments.

### Impact of the Third Programming Period 2000-06

The overall aim of the programming period 2000-06 was to secure an increase in productivity, a restructuring of the economy and convergence of GDP per capita towards EU average. This in fact was hard to achieve according to the figures. However, the sectoral programmes did reach their goals up to a level, in sectors as human capital development, R&D, agriculture.

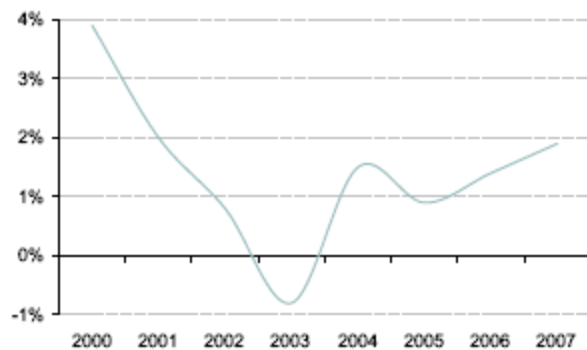
According to the Ex Post Evaluation for 2000-06 the main feature of the Portuguese economy during the period 2000-2006 was marked by slowdown in GDP growth (also reflecting the less favourable global economic situation). A reversal began on terms of convergence towards GDP per capita in the EU. The fall in GDP growth, 0.5% in the period 2001-04 (1.7% for the EU average) in Portugal (see Table 10, 11), however, was deeper and longer than for the EU average,

---

<sup>53</sup> RDP for Portugal, 2000-06

reflecting the remaining structural problems. The production sector is still specialized in low-tech – contrary to Ireland's high-tech level –, focusing on labour intensive products, and it is characterized by low skilled workforce as well. The resources available for regional development are, therefore likely to have been severely constrained over the period.<sup>54</sup>

x Table 10 Annual Growth Rate of GDP, %



Source: Statistics Portugal, National Accounts

xi Table 11 Microeconomic Developments, 1995-2006

	1995-1999	1999-2006	1999-2001	2001-2004	2004-2006
GDP growth (annual average growth rate, % pa)					
EU25	2.6	2.2	2.9	1.7	2.4
Portugal	4.1	1.3	3.0	0.5	1.0
Inflation (harmonised consumer price index, % rise pa)					
EU25	2.1	2.2	2.5	2.1	2.2
Portugal	2.1	3.1	3.6	3.1	2.6
Public sector balance (% GDP)	1995	1999	2001	2006	Average 2000-2006
EU25	:	0.8	-1.2	-1.5	-2.2
Portugal	:	-2.9	-4.3	-3.9	-4.4
Public sector consolidated debt (% GDP)					
EU25	:	:	61.1	61.9	61.8
Portugal	62.1	50.5	52.9	64.8	57.5
External balance (% GDP)					
EU25	0.9	0.9	0.9	0.5	1.0
Portugal	-10.2	-10.2	-10.0	-7.8	-8.6
General government expenditure (% GDP)					
EU25	52.5	47.1	46.4	46.9	46.8
Portugal	42.8	43.2	44.4	46.4	45.4
General government investment (% GDP)					
EU25	2.7	2.3	2.4	2.5	2.4
Portugal	3.5	4.1	3.9	2.3	3.2
General government investment (% gen. gov. exp.)					
EU25	5.2	4.9	5.2	5.3	5.0
Portugal	8.2	9.5	8.8	5.0	7.1

: = not available

Source: Eurostat

Source: Eurostat

<sup>54</sup> Ex Post Evaluation on Portugal, 2000-06

The impacts evaluated in terms of regional disparities show different achievements.

Despite the overall positive effect, in some regions the impact of Cohesion Policy was negligible. The more supply-driven infrastructural strategies implemented by the municipalities brought success. The positive effects were shown especially regarding the incentives to companies (SM, in transport and telecommunication, environment and energy, human resources and agriculture and fisheries policy areas.

The better performance of the regions was related to the new structure (the first steps were established already at the second programming period). The Regional OPs - based on Regional Development Plans -, were drawn up by the Regional Coordination and Development Commissions (CCDR), and the regional managing authorities in the Autonomous Regions. The regional bodies were led together with the sectoral programmes by the Director General of Regional Development within the Ministry of Finances. This model fits to the basic requirements such as greater synergy between the measures taken by different regional authorities, better coordination, transparency, adequate level of information, high management skills, agility and flexibility that could only be created within autonomous management bodies. Therefore the institutional framework should work as a “true incubator” of regional policy achievements.<sup>55</sup> However, in the period 2000-06 the real effects of decentralization of the management were limited by the lack of effective decentralization of decision-making power over sectoral policies which remained at Ministerial level.

Since the aftermath of the programming period 2000-06 showed that it is not easy at all to reach the initial objectives of the development plan, the evaluation report considered some lessons for the period 2007-13. The following steps were considered to be avoided in the future:

- Insufficient distinction of projects between regional and national level;
- Insufficient concentration of financing in the key-areas;
- Difficulty in fostering the innovation potential of the private and public sector;
- Insufficient attention paid to the reinforcement of the institutional capacity of the public administration;
- Insufficient focus on the quality of effects and the efficiency and sustainability of co-financed operations;

---

<sup>55</sup> Figueiredo, A, p17

- Undervaluation of the “time” factor necessary to produce systemic effects.<sup>56</sup>

#### 2.3.3.4 Priorities under the Fourth Programming Period 2007-13

The following objectives were defined for the 2007-13 programming period in the CSF/NSRF:

- promoting the qualification of the Portuguese people by developing and stimulating knowledge, science, technology and innovation;
- promoting sustained growth by raising the competitiveness of territories and of enterprises, reducing public administrative costs, improving productivity and the attraction and stimulation of qualifying business investment;
- guaranteeing social cohesion by fulfilling the aims of increasing employment and strengthening employability and entrepreneurship;
- ensuring the qualification of the territory and cities by ensuring environmental gains, promoting better territorial planning, preventing risks and also improving the connectivity of the territory;
- raising the efficiency of governance by modernizing public institutions and improving the efficiency and quality of the major social and collective systems, and supporting civil society and regulatory improvements.

Along these main objectives, the NSRF set the following priorities:

- Operational concentration;
- Selectiveness in the choice of investments and development actions;
- Economic feasibility and financial sustainability of operations;
- Territorial cohesion and enhancement;
- Strategic management and monitoring of the interventions.<sup>57</sup>

The five national strategic priorities will be implemented through almost 20 OPs, again in individual ROPs.

<sup>56</sup> Ex Post Evaluation for Portugal, 2000-06

<sup>57</sup> NSRF for Portugal, 2007-13



### *2.3.4 Estimated Progress in the Future*

Portugal's development strategy is largely extended to enjoy full advantage from EU Funds. The ambitions to modernize the economy must therefore consider and exploit more regional characteristics in order to avoid the previous faults, especially in the first two programming periods. Portugal is the second most centralized country in the OECD area, according to the OECD Review (2008). The responsibilities are still either under the authority of the central government or shared between the central and municipal levels. Overall, resources and competencies remain mostly in the central level, which shows that the policy-making process still relies to a great extent on central government knowledge.<sup>58</sup>

The main focus points for further developments, however, should be on regional disparities, regional competitiveness, knowledge based society, investment incentives for national and foreign investments, but all based on past achievements.

In a context of EU enlargement the 2007-2013 programming period might offer the last greater support of the EU for Portugal, therefore it should "tie up the trousers".

---

<sup>58</sup> OECD Territorial Review on Portugal, 2008

## Chapter 3. Reasons and Implications for the Different Usage of EU Funds

### 3.1 Ireland's Receipt for Success

Cohesion Policy has undoubtedly played a significant role in the recovery and development of Ireland's economy. As seen from the figures, Cohesion Policy contributed to sustain high level of growth and employment.

#### Why has Cohesion Policy been so successful in Ireland?

*First*, the EU Cohesion Policy was an integral part of Ireland's national policy, therefore no additional, irrelevant objectives and priorities had been selected. The case of inconsistency and doubling did not occur during the programming phases. All OPs had been consistently set up.

*Second*, timing was a very important factor; when the Structural Funds were introduced and absorbed by Ireland, the country went through the economic transformation cycle. Every support might have helped to boost the development which had already begun by the time of the accession. The granted investments needed to be sustained.

A *third* element concerns the investment priorities, particularly human resources, education and training, which has been a key factor for attracting FDI and greatly supported by the Structural Funds. Ireland is unique among the four "Cohesion countries" in this regard, since it has allocated up to 35% of its Structural Funds to human resource investments, compared with an average of around 25% for the others.

The *fourth* element is the positive effect of the established professional institutions according to Cohesion Policy rules ("acquis"<sup>59</sup>). They were beneficial on the level of governance and public administration, in newly introduced areas such as multi-annual programming, financial management, monitoring, evaluation, and social and regional partnership, which have been promoted as an integral part of the implementation of the Cohesion Policy. The effective social partnership was based on a strong already existing relationship between government and trade unions.<sup>60</sup>

---

<sup>59</sup> „Acquis communautaire” refers to the entire body of EU Law

<sup>60</sup> Fact sheet on the Impacts of EU Support by The Irish Regions Office

Ireland provides a good example of investing EU Funds in industries where it enjoyed a comparative advantage. Looking specifically at Ireland's main economic input, FDI has been a great factor of the development policy. Since FDI has been evolving high-tech over the last period, it also requires permanent supply of skilled labour, which was highly supported by the human resources programmes of the EU Funds. Besides the assistance of human capital, the R&D funding contributed similar way to the infrastructural development.

Ireland used EU Funds not as an additional money peg, therefore they has been exploited effectively by spending fund on areas which favour the ever growing competitiveness of the country. It is important to notice that EU Funds alone cannot guarantee convergence. Cohesion and competitiveness should be the framework for the strategies planned in order to avoid the "Mezzogiorno effect"<sup>61</sup>. Although Ireland's development plans have been based mainly on attracting FDI in high-tech manufacturing sectors to the country, other "Cohesion countries" have successfully followed different paths. Portugal has experienced substantial real convergence with a manufacturing sector that remains dominated by low-tech industry. However, labour-market flexibility appears to be particularly important along this development path.

On the other hand, it should not be obscured that Ireland – before the success story began – faced weak performance in the economy during the 1980's. Through this period living standards and investment were on a downward trajectory and they were coupled with rising taxation (all measures against growth and FDI). Compared to the success period, this period was defined as Ireland's failure. However, the steps taken afterwards, such as conceptualization of problems and the solutions to overcome them, opened the way for further development. The important lesson from the Irish experience of backwardness during the 1980's was that globalization and Europeanization made domestic policies, and actors more – not less – significant. The key lesson of this period was the understanding of the "constraints on a small open economy".<sup>62</sup>

---

<sup>61</sup> The "Mezzogiorno effect" refers to the phenomenon, that in Southern Italy, despite massive regional assistance, GDP per capita has only briefly converged to the Northern Italian levels (during the 1960s). However since then better performance is shown in that region.

<sup>62</sup> Laffan, B. and O'Mahony, J., p224

### ***3.2 Reasons for Portugal's Performance through EU Funds***

#### What was Missing from Portugal's Success compared to Ireland?

The OECD Review on Portugal showed some basic elements where Portugal needs to develop further in order to be more successful in achieving its economic goals in the future. These problematic fields were the main reasons for the less success – since Portugal has not at all been unsuccessful, as the figures showed before - in the absorption of EU Funds for Portugal. Therefore several suggested actions have been defined.

Better linkage should be built between regional policy and innovation, while the permanently focusing on human capital development. Regional competitiveness is a key element for Portugal's development policy, therefore effective and sustainable mechanisms (also to improve public services) should be established in order to reveal the development potential of all regions. Identifying niches on regional market levels may help for regions lagging behind. On regional level it is important to clarify the role of the individual regional authorities and the central government's role in policy-making, in order to avoid duplications and confrontations and to foster coherence.<sup>63</sup>

The head of the programming processes should be, however, the central government. Common development programmes are also encouraged to promote inter-municipal cooperation. Appropriate information channels have been almost absent between the different actors of development policy, mainly the social partnership process performed poorly during the previous programming periods. Compared to Ireland, where the social partnership process had already strong ties within the society, in Portugal there is still need for improvement. Although the evaluation process begins after the project implementations (ex ante and ex post), it is an important step in regards to the next programming phases and project planning. Monitoring and continuous assessment of the policies through indicators and benchmarking are crucial elements of successful programming and implementation.

Although notable progress has been achieved in terms of planning and programme management capacity, complementary training programmes could further support local capacity building in the regions.

---

<sup>63</sup> OECD Territorial Review on Portugal, 2008

The agenda for the current development policy (NSRF) is perhaps too ambitious for Portugal's background on the fore-mentioned areas.

### ***3.3 Lessons for the New Member States***

The enlargement of the EU to 27 Member States and the prospective further enlargements present unprecedented challenges for all its members. One of these challenges concerns the successful and efficient absorption of the EU Funds. Ireland's experience does provide some lessons for accession countries, but the *"Irish experience is not necessarily a model which will work for all."*<sup>64</sup>

As regards the management part, by focusing on the planning procedure carefully, ensuring proper evaluation procedures, and providing appropriate assistance will contribute to the successful implementation of the programmes (in small countries it should be easier to manage). The case of Portugal showed that decentralization in itself does not support efficiency, the regional centers should be supervised from the central to some extent, and the coordination of these regional authorities should be ensured through various channels. It is also important to mention that early political agreement on the policies is the core element for sustainable planning and implementation. However, all decisions should be in line with the subsidiarity principle (decisions taken at the lowest possible level).

In terms of human resources, similarly to Ireland, the new Member States can also draw upon a highly skilled workforce and lower labour costs to assist competitiveness.

In fiscal terms, becoming a Euro country would also favour these development processes.

The partnership process is an extensive area, where several actors are concerned, such as the European Commission, the central government, local and regional authorities, the social dimension (NGO's, SME's, all beneficiaries). The collective phrase "multi-level governance" refers to the different levels where partnership should be extended. Because of that, it is not easy at all to reach all these actors of the society, however, promoting partnership process has been and will be the most important factor of successful development policy. The European Commission sets the regulations and monitors the policies of the Member States concerning

---

<sup>64</sup> O'Sullivan, S, Assistant Secretary, Ministry of Finance Ireland

Cohesion Policy. Therefore it is advisable to have good relations with the Commission. The quality of the (not just the existence of) domestic partnership process has high importance in the successful absorption of the Funds. While the partnership with the Commission is a factor common to all Member States, the nature of the domestic partnership process will differ from Member State to Member State.

In terms of financing, compared to the previous beneficiaries, new Member States could not expect the same level of financial assistance in terms of their GDP (Poland and Spain receiving the highest amount of funding). Therefore, adjustments costs will be also higher and it will take them longer to catch up.

It is important to note, that the level of assistance should not be overestimated, since the EU Funds are only additional resources for the economies. Therefore, the main contribution to the economic developments derives (and will derive in the future) from the countries themselves.

### ***3.4 The Current Financial Crisis and the Cohesion Policy***

Cohesion Policy is a great contributor to the European Economic Recovery Plan.

The programming period 2007-13 allocates EUR 347 billion to strengthen growth and economic and social cohesion within the EU. According to the Commission's estimations, over the period 2007-13 accounts on average for almost 6% of expected GDP.

Cohesion Policy encourages smart investments (more than 65% is earmarked for investments), taking into account the Lisbon Agenda for growth and jobs. In some Member States the relative contribution of Cohesion Policy in total public investment will be over 50%.<sup>65</sup>

As a consequence of the recession, unemployment is rising, business indicators show negative trends in their cycle. Cohesion Policy programmes are flexible to adjust to the new circumstances. For instance, in Hungary, political decision was recently made about the re-allocation of the financial resources arriving from the EU Funds. The main aspects for the change were the greater support for economic performance, namely to assist the SME's in their business developments by keeping their employment level, and to invest in human capital in order to avoid serious rise in unemployment. However, this re-allocation causes less support for sectors such as

---

<sup>65</sup> European Economic Recovery Plan, European Commission, 2009

transport infrastructure (especially the road construction sector), which is already a contradictory area. On the one hand this sector should not be allowed to be supported in great amounts, since it creates tons of concrete, on the other hand it does improve connection between territories and regions.

The contradictory elements suggest that Cohesion Policy has been under construction since its creation and that Cohesion Policy needs to develop further in order to content the Member States' demands.

### III. Conclusion

The overall implication is, according to the European Commission, and other research institutes, that without the EU subsidies, economic growth would have been less in the “Cohesion countries” (for instance, the support for investments in the programming period 1994-99 reached around 10% in both countries<sup>66</sup>). Although not in the same manner, but EU Funds played a great role in the success of catching up of the “Cohesion countries” since their accession. The different development level they have reached through EU assistance shows that successful integration is not only a budgetary issue. The EU is not a source of major income transfers, where the revenues can immediately be consumed.

The answer for the main question raised in the paper - **how and why Ireland has been more successful in the absorption of the EU Funds than Portugal** -, showed that the successful realization of the targets set by the development plans is mainly about better focusing on the structure of the policy, beginning with the programming phase, along the establishment of the institutional system, until the final implementation, the payment and absorption processes observed by the evaluation phase. As shown in the paper, there are indeed good receipts for greater absorption capacity for the Member States. Supportive national and regional policies and good governance with well functioning public administration, are an essential precondition for the achievement of great impacts. The establishment of a proper institutional system is already “half success”, therefore it matters heavily. Additionally, lots of aspects have to be considered when planning a nation-wide strategy for growth. There are good examples, as Ireland which can be taken as positive benchmarking base for the Member States facing more problems regarding efficient absorption. Besides the importance of benchmarking (best to use for benchmarking Member States with similar features in size, GDP, institutional system, etc.) the evaluation process should be highly appreciated in the management progress. However, a positive message for each affected Member State is, that there are ways to achieve the most effective use of EU Funds, since *“Successful absorption is not just about pulling in the money, it is also about using it well. If I had to sum up in just two words the key to Ireland’s story, those words would be partnerships and planning.”*<sup>67</sup>

<sup>66</sup> Second Report on Economic and Social Cohesion, 2001

<sup>67</sup> O’Sullivan, S, Assistant Secretary, Ministry of Finance Ireland



## IV Bibliography

Csaba, László: The Future of the EU: A Post-Laeken Perspective, Tiger Working Papers, Warsaw, 2002/21.

Dezséri, Kálmán: New Modes of Governance and the EU Structural and Cohesion Policy in the New Member States, Akadémiai Kiadó, 2007

Figueiredo, Antonio Manuel: The Learning by Evaluating Process of Regional Policy in Portugal: A Special Case of Strong Municipalities and Weak Planning Regions, University of Porto and Quaternaire Portugal, Regional Studies Association, 2004 Conference package

Gomis-Porqueras, Pere and Garcilazo, Enrique: EU Structural and Cohesion Funds in Spain and Portugal: Is Regional and National Inequality Increasing?, University of Miami, Working Paper Series, Vol.3, No.11, December 2003

Györffy, Dóra: Democracy and deficits: the new political economy of fiscal management reforms in the European Union, Akadémiai Kiadó, 2007

Hansen, Morten: The Irish Growth Miracle: Can Latvia Replicate?, Baltic Journal of Economics, Issue 5(2)/2006, p3-15

Horváth, Zoltán: Handbook on the European Union, HvgOrac, 2005

Keatinge, Patrick: Ireland and EC Membership Evaluated, Pinter Publishers Ltd., 1991

Kengyel, Ákos: The Added Value of EU Level Intervention, in Society and Economy, Journal of the Corvinus University of Budapest, Volume 30, Number 2, 2008, p304-325

Kengyel, Ákos: Kohézió és finanszírozás, Akadémiai Kiadó, 2008

Laffan, Brigid and O'Mahony, Jane: Ireland and the European Union, Palgrave Macmillan, 2008

Lopes, Jose de Silva: Portugal and EC Membership Evaluated, Pinter Publishers Ltd., 1993

Pereira, Alfredo M., Development Policies in the EU: An International Comparison, Review of Development Economics 1(2), 1997, p219-235

O'Sullivan, S, Assistant Secretary, Ministry of Finance Ireland, in the speech: Addressing the Absorption Capacity in the New Member States, European Commission, 2005

Pop, Daniel: Policy change, growth and convergence processes: the experience of the CEE-10 countries during EU accession negotiations, CEU, Budapest College, 2007

Royo, Sebastián PhD.: Lessons for Post-Communist Europe from the Iberian Integration into the EU after Sixteen Years, The Minda de Gunzburg Center for European Studies, Harvard, Central and Eastern Europe Working Paper 57

Sequeira, Tiago Neves: The „Iberian Tigers” versus the „Celtic Tigers”: Economic Growth Paths in an Economic History Perspective, University of Lisbon, PhD

Szemlér, Tamás: Mid-term Economic Programmes and the Use of EU Funds in Hungary, Economic Studies, Issue 1/2007, p33-43

Wallace, Helen, and Wallace, William, and Pollack, Mark: Policy-making in the European Union, Oxford University Press, 2005

Council Regulation (EC) No 1083/2006, Official Journal of the European Union

DG Regio, European Commission: All Reports on Economic and Social Cohesion,

[http://ec.europa.eu/regional\\_policy/sources/docoffic/official/repor\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/official/repor_en.htm)

DG Regio, European Commission: Fact Sheets on Member States,

[http://ec.europa.eu/regional\\_policy/atlas2007/index\\_en.htm](http://ec.europa.eu/regional_policy/atlas2007/index_en.htm)

European Economic Recovery Plan, European Commission, 2009

Rules and Conditions Applicable to Actions Co-financed from Structural Funds and Cohesion Fund, European Commission, February 2009

Economist Intelligence Unit (EIU) Country Report: European Union, March 2009

Eurostat yearbook (2008), Europe in Figures

Ex Post Evaluation of Objective 1, 1994-99, National Report – Ireland and Portugal

Ex Post Evaluation of Cohesion Policy Programmes 2000-06 financed by the European Regional Development Fund in Objective 1 and 2 regions, Ireland and Portugal

National Development Plan/Community Support Framework 1994-99 and 2000-06, Ireland

Regional Development Plan/Community Support Framework 1994-99 and 2000-06, Portugal

National Strategic Reference Framework 2007-13, Ireland and Portugal

OECD (2008) Territorial Review on Portugal

The Portuguese Economy, Report of the Ministry of Finance, 2005

Territorial Cohesion and the Future of the Cohesion Policy, Paris, October 2008, conference

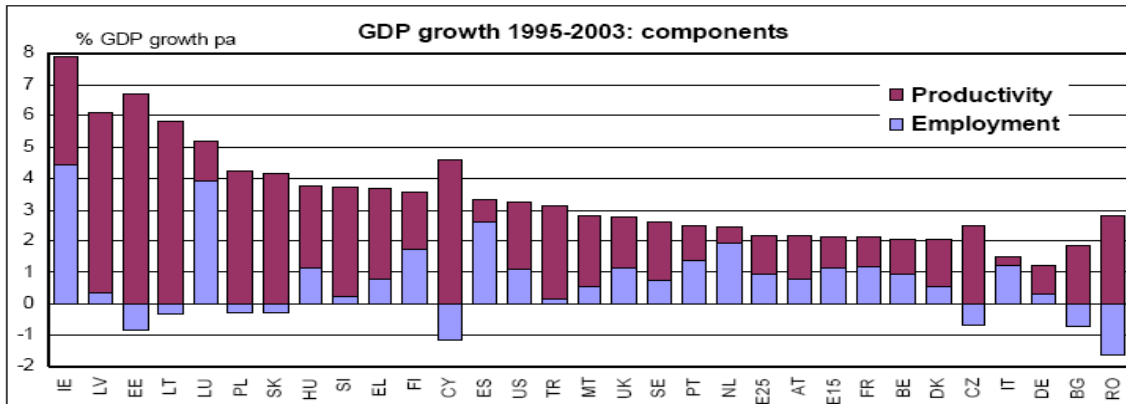
The Future of European Regional Policy - A Place for Ireland and its Regions -, Irish Regions Office, Brussels, 2003 (Conference outcomes)

Other: Irish Times; The Irish Regions Office webpages

## V. Appendices

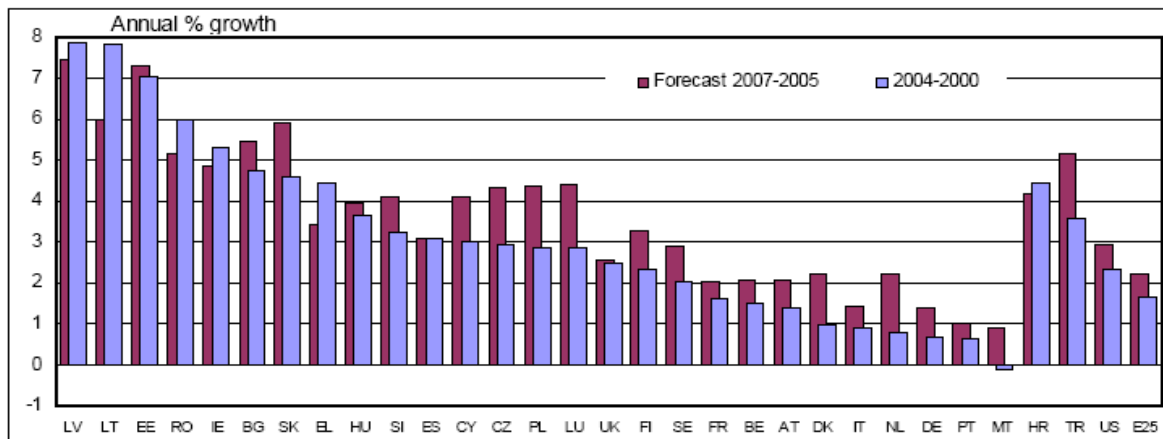
### European Union, OECD Countries

#### *GDP per capita Growth Rates (%)*



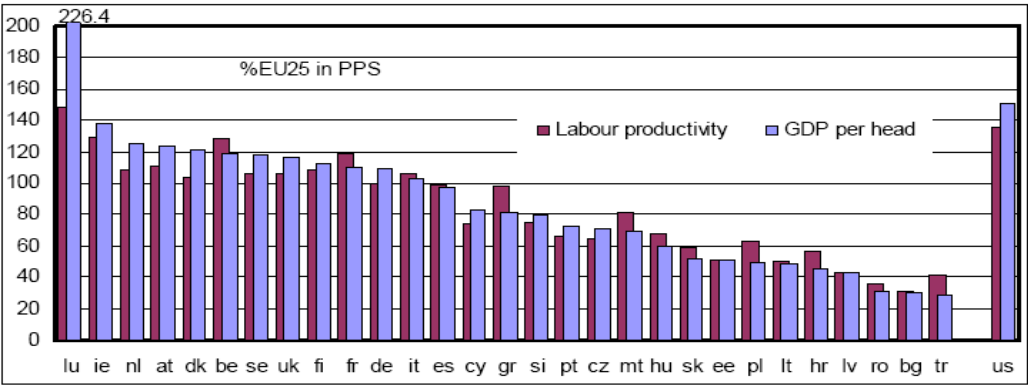
Source: Third Progress Report on Economic and Social Cohesion, 2005

#### *Annual Average Growth of GDP, 2000-2004*



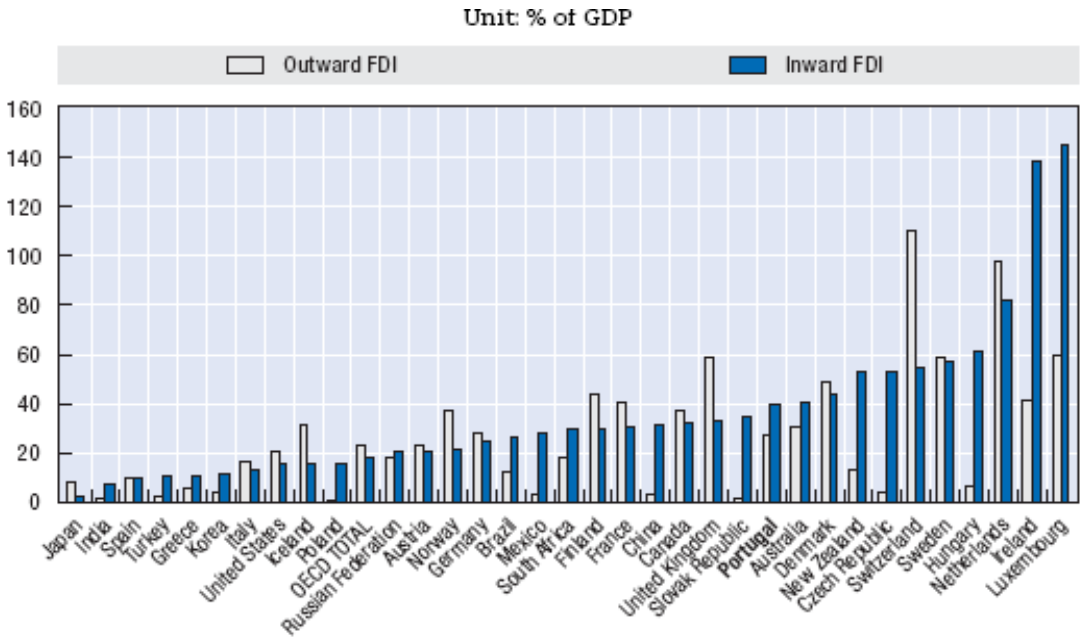
Source: Third Progress Report on Economic and Social Cohesion, 2005

***GDP per capita and Labour Productivity (in PPS) Relative to the EU25 average, 2004***



Source: Third Progress Report on Economic and Social Cohesion, 2005

***FDI Stocks in OECD Countries, 2007***

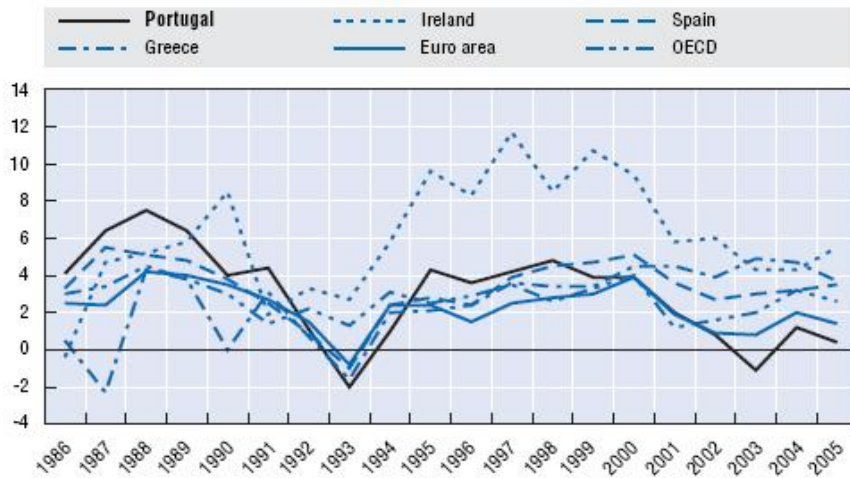


Source: OECD Factbook 2007.

Source: OECD

## Cohesion Countries

### Real GDP Growth rate in Portugal, Ireland, Spain, Greece, Euro Area and OECD, 1986-2005



Source: Third Progress Report on Economic and Social Cohesion, 2005

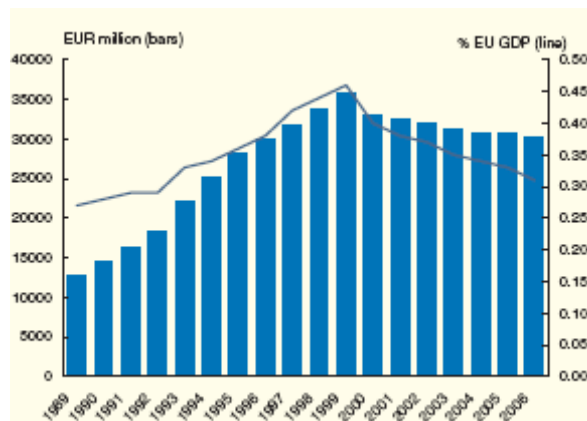
### Effect of Community Structural Intervention on GDP and Unemployment, 1989-99

	(% of non-intervention estimate)							
	Greece		Ireland		Portugal		Spain	
	GDP	Unemp. rate	GDP	Unemp. rate	GDP	Unemp. rate	GDP	Unemp. rate
1989	4.1	-3.2	2.2	-1.4	5.8	-3.6	0.8	-0.5
1993	4.1	-2.9	3.2	-1.0	7.4	-4.1	1.5	-0.8
1999	9.9	-6.2	3.7	-0.4	8.5	-4.0	3.1	-1.6
2006	7.3	-3.2	2.8	0.4	7.8	-2.8	3.4	-1.7
2010	2.4	0.4	2.0	0.5	3.1	-0.1	1.3	-0.4

Source: ESRI, estimates based on the HERMIN model (2000)

Source: Ex Post Evaluation, Ireland, 1994-99

### Change in the Scale of the Structural Funds, 1989-2006



Source: Fourth Report on Economic and Social Cohesion, 2007

**GDP per capita (EU-15=100) and Structural Funds (all objectives average 2000-2006) in % of GDP**

	<b>GDP</b>	<b>SF</b>
EL	67	2.9
PT	71	2.9
ES	84	1.4
IT	100	0.4
DE	100	0.2
FI	104	0.2
FR	105	0.2
UK	105	0.2
SE	106	0.1
BE	107	0.1
AT	112	0.1
NL	113	0.1
DK	115	0.1
IE	118	0.6
LU	194	0.1

Notes: GDP per capita in PPS in relation to the average of the EU-15 in 2001; SF: all Objectives in relation to national GDP by country, 2000-2006.

Source: European Commission (2004c).

Source: Third Report on Economic and Social Cohesion, 2004

**COHESION POLICY 2007-2013: INDICATIVE FINANCIAL ALLOCATIONS (MILLION EUR, CURRENT PRICES)**

	Convergence Objective			Regional Competitiveness and Employment Objective		European Territorial Cooperation Objective	Total
	Cohesion Fund	Convergence	Statistical Phasing-out	Phasing-in	Regional Competitiveness and Employment		
België/Belgique			638		1 425	104	2 258
Bulgaria	2 283	4 391				179	6 853
Ceska Republika	8 819	17 064			419	389	26 692
Denmark					510	103	613
Deutschland		11 864	4 215		9 409	851	26 340
Eesti	1 152	2 252				52	3 456
Ellas	3 697	9 420	6 468	635		210	20 420
España	3 543	21 054	1 583	4 955	3 522	559	35 217
France		3 191			10 257	872	14 319
Ireland				458	293	151	901
Italia		21 211	430	972	5 353	846	28 812
Kypros	213			399		28	640
Latvija	1 540	2 991				90	4 620
Lietuva	2 305	4 470				109	6 885
Luxembourg					50	15	65
Magyarország	8 642	14 248		2 031		386	25 307
Malta	284	556				15	855
Nederland					1 660	247	1 907
Österreich			177		1 027	257	1 461
Polska	22 176	44 377				731	67 284
Portugal	3 060	17 133	280	448	490	99	21 511
Slovenija	1 412	2 689				104	4 205
Slovensko	3 899	7 013			449	227	11 588
Suomi-Finland				545	1 051	120	1 716
Sverige					1 626	265	1 891
United Kingdom		2 738	174	965	6 014	722	10 613
Romania	6 552	12 661				455	19 668
Interregional						445	445
Technical Assistance							868
<b>Total</b>	<b>69 578</b>	<b>199 322</b>	<b>13 955</b>	<b>11 409</b>	<b>43 556</b>	<b>8 723</b>	<b>347 410</b>

Due to rounding, figures may not add-up exactly to the total shown

Source: Fourth Report on Economic and Social Cohesion, 2006