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# The Importance of the EC Structural Funds in the Regional Development. The Spanish Case

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## **THE IMPORTANCE OF THE E.C. STRUCTURAL FUNDS IN THE REGIONAL DEVELOPMENT. THE SPANISH CASE.**

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### **ABSTRACT**

This paper tries to analyze the importance which has been acquired by the Structural Funds in the financial system of those Autonomous Communities that can benefit from them. It also refers to the influence which Structural Funds have had in order to approach their levels of development to the average of the European Member States.

We will analyze and describe the different comunitarian tools which are connected with the regional development and then we will study the Spanish regions that have been benefited from them since the adhesion of our country to the European Union in 1986.

The effects of these mechanisms will be studied from two different points of view. First of all, we will consider the impact of these resources in the regional financial system. On the other hand, we will see if they are efficient enough in order to reach the purposes of regional cohesion, and we will also see their influence in the different productive sectors.

Finally we will reference to the modifications in the cohesion instruments which are being proposed by the authorities as a part of the necessary changes in the European Union Budgets, and then we will demonstrate the effects caused by this modifications to our country as it is one of the major beneficiaries of these Funds.

## **1.- THE COMMUNITY INSTRUMENTS FOR REGIONAL DEVELOPMENT.**

In the European Communities of 1957, when the Treaty of Rome was amended, the regional policy was not a very important question, in fact there was no article referred to it. It will be later, above all the successive ampliations of the Community and specially when it reached twelve members, when the disparities between the various regions appeared. These differences will motivate that the regional questions became more important and the authorities will start to take measures in order to solve this problem.

When the countries firmed the Treaty of Rome they all believed that it was necessary to reach more ecquality between the regions but this problem was not considered important enough to need special instrments and an own policy; it was thought that this ecquality wolud be reached by the Common Market by it own.

Although these targets were found in the Treaty, they colud not be reached and the disparities between the regions could not be reduced by their own. The union of three new members to the European Economic Community in the seventies, made a new adaptation of the existing instruments and it produced the creation of the European Regional Developement Fund (ERDF) as an instrument dedicated to reduce the disparities and unbalances in the least-favoured regions and insdustrial areas.

With the European Union Treaty and the Structural Funds rules revision in July - 1993, a cohesion policy was designed with six basic Objectives:

- Objective 1: promoting the development and structural adjustment of regios whose development is lagging behind.
- Objective 2: converting regions, frontier regions or part of regions including employment areas and urban community, seriously affected by industrial decline.
- Objective 3: combating long-term unemployment and facilitating the integration into working life of young people and of persons exposed to the exclusion of the labour market.
- Objective 4: facilitating the adaptation of worker of either sex to industrial changes and to change in productions system.
- Objective 5a: promoting rural development by speeding up the adjustement of agricultural structure in the framework of the reform of the common agricultural policy.
- Objective 5b): promoting rural development by facilitating the development and structural adjustment of rural aereas.
- Objective 6: development and structural adjustment of regions with an extremly low population density.

In order to reach these objectives, several mechanisms were designed and dedicated to loans and subsidies. The most representative instruments are these ones:

a) European Regional Development Fund. It is a financial instrument that helps regional policies adopted by State Members not only in a statal level but in a regional level too. The Structural Funds reformation in 1988 assigned to this Fund the achievement of the Objective 1 and 2 and subsidiarily the Objective 5 b). It will participate in the financing of productive investment to permit the creation or maintenance of permanent jobs; investment in infrastructure, namely in the regions designated under Objectives 1, 2 and 5 b); the development of indigenous potential in the regions ; investments in the field of education and health in the regions designated under Objective 1; measures contributing towards regional development in the field of research and technological developemenet; productive investmenet and investment in infrastructure aimed at enviromental protection; operations in the context of regional development at Community level; the preparatory, appraisal, monitoring and evaluation measures.

Subventions given by this Fund are a complement of the statal aid, in fact de ERDF finances between a 50 and a 75% of the total cost, depending on the objective and in excepcional justified cases the finance can rise the 80 or the 85 % of it.

b) European Social Fund. In order to improve employment opportunities for workers in the internal market, this Fund is established in order to render the employment of workers easier and to increase their gegographical and occupational mobility within the Community, and to facilitate their adaptation to industrial changes and to changes in production systemes, in particular through vocatinal training and retraining. This is the only one which is established by the Treaty.

The Eurpoean Unic Act, as it is well known, introduced several articles which have to do with economical and social cohesion. In order to achieve these objectives, it was necessary to turn to the Structural Funds, that is why they must to be strengthen in order to be more effective. It was also necessary to delimitate their field of application and to coordinate it with the other financial mechanisms of the Community<sup>1</sup>. This necessity brought about a general reformation of the Funds in 1988 which changed the way of application of the Social European Fund (they were changed again in 1993), and up to now it sholud aim to reach Objectives 3 and 4 and activities conneceted with Objectives 1, 2 and 5 b).

The activities financed by this Fund shall be such as to complement or contribute national, regional, local or other levels actions. The financing of the Social European Fund can rise the maximum of 50 % of the total cost.

c) European Agricultural Guidance and Guarantee Fund (Guarantee Section/ Guidance Section). It is a financial instrument which have to strengthen agricultural structures adopted by the State Memebers and it has two sections. Orientation Section,

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<sup>1</sup> See in this way GALLIZIOLI, GIORGIO, I Fondi Strutturali delle Comunità Europee, CEDAM, Padova, 1992, pp. 141 y ss.

it has to finance the activities dedicated to improve agricultural structures; and Guidance Section, it has to support the different common market organizations.

The European Agricultural Guidance and Guarantee Fund, Guidance Section, starts to work in the seventies. The Unic European Act entrust it the pursuit of Objective 5 a) and 5 b) and the participation in several actions in relation with Objective 1.

As the other Funds, this one cannot finance by it own the whole cost of the action and it is necessary the contribution of the competent authorities of the Sate or another economic and social partner, according with the complementary and aditionality principles established by article 4 of the Council Regulation (EEC) No. 2052/88 (OJ 1988, No. L 374).

d) Financial Instrument of Fishiers Guidance. It was necessary to regulate this Fund by a Council Regulation (EEC) No. 2083/93, of 20 July, because the activities in relation with the fishing and areas depending on it were included in 5 a) Objective. This Fund is similar to others financial instruments of fishiers which were not included in the Structural Funds.

According to article 1 the tasks of this Fund shall be: shall aim to contribute to achieving a sustainable balance between resources and their exploitation; to strengthen the competitiveness of structures and the development of the economically viable enterprises in the sector and to improve the market supply and the value added to fishiers and aqua-culture products. The most benefited countries by this Fund are Spain, Italy, France and Portugal that have the 69% of it annual budget.<sup>2</sup>

e) Cohesion Fund. The firm of the Treaty on European Union in 1992 showed the necessity of improving the economic and social cohesion. In order to achieve this purpose the previous Funds would be used and it wolud be created a new one. This objective is established in article 3 of the Treaty, and the article 129 C set it up. This Fund is going to benefit the four least-favoured countries in the Community, in which Spain is included. Our country obtains the 52% of it budget.

This Fund is set up by the Council Regulation (EC) No. 1164/94 of 16 May. The second article establishes: “This Fund shall provide financial contribution to projects, which contribute to achieving the objectives laid down in the Treaty on Eurpoen Union, in the fields of the enviroment and trans-European transport infrastructure networks in Member States with a per capita gross national product (GNP), measured in purchasing power parities, of less than 90% of the Community average which have a programme leading to the fulfilment of the conditions of economic convergence referred to in Article 104 C of the Treaty”.

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<sup>2</sup> See, EUROPEAN COMMISSION, First Cohesion Report 1996, Luxemburg, 1997, p. 90.

## **2.- SPANISH REGIONS AND OBJECTIVES.**

Spain is one of the most benefited countries by the structural aid. Our country is included in all the Objectives except the Objective 6. These programmes affect to three regional categories.

- a) The least developed regions, included in Objective 1. They take the 75% of the national territory. The list of Spanish regions concerned by Objective 1 is: Andalucía, Asturias, Canarias, Cantabria, Castilla-La Mancha, Castilla-León, Valencia, Extremadura, Galicia and Murcia, and Ceuta and Melilla cities. The Funds are dedicated to direct investments in production, improving the basic structures, research and technological development, services to the small and medium size firms, cultural and health structures, basic vocational training and employment opportunities and the rural development.
- b) Areas affected by industrial decline and included in Objective 2. The list of the Autonomous Communities included in this group is: País Vasco, La Rioja, Navarra, Aragón, Cataluña, Madrid y Balearic Islands.
- c) Rural areas included in Objective 5 b). These areas are the same as the ones included in Objective 2. In this case the priority objectives are: promoting rural development by facilitating the non agricultural employment, services to the small and medium size firms, working training, improvement of agricultural activity.
- e) Structural Funds also helps to several activities which affect to the total spanish territory as fighting with the unemployment (Objective 3), prevention of the industrial change effects in the employment (Objective 4) and fishier and agricultural restructuration (Objective 5 a).
- e) Cohesion Fund has another important mission, it finances in the whole spanish territory specific projects in two areas: environment and trans-european networks.

## **3.- APPLICATIONS OF THE STRUCTURAL FUNDS IN SPAIN.**

Between 1989 and 1999 the European Union will have granted more than 10 billion pesetas to our country. Briefly, and taking into account that there have been two periods of framework, one of them already completed, we will see how this hwlp has been materialized.

In the corresponding interventions to the period 1989/93, Objective 1 regions raised their DGP per capita from 68,3 to 73,5 % of the communitarian average. In this period much investment was made in the basic infrastructure, in particular, transport, which absorbed 40 % of the Funds. Also, within the infrastructures, attention has been given to the telecommunications and environment, which had a very particular importance

in various infrastructural projects dedicated to resolving the insecurity linked to the water resources and waste treatment.

Other areas of activity, in the Objective 1 regions, were the investigation and development, productive investment, human resources, agricultural restructuring and rural development.

If in the 1989/93 period the major works were centred around the infrastructure, for the 1994/99 period more importance will be given to productive investment, to human resources and the improvement of living conditions and the environment.

In the Objective 2 regions the program period 1989/93 contributed to the installation of digital telephone lines and kilometers of fibre optic cables as well as the construction or reparation of local roads. Equally they helped the raise in capacity of waste treatment while the productive investment encouraged new companies and renovated or created industrial sites.

For the 1994/99 period, the Objectives were more geared towards reducing unemployment and improving the business competition. At any rate, the majority of the cost is destined for the transport and communication infrastructures and environmental equipment.

In the Objective 5 b) zones, during the 1989/93 period aid was directed towards modernising companies, rural areas were connected to electrical and water networks, means of environmental protection in natural areas were applied, and training activities influenced the innovation in order to promote the renovation of the rural framework. The rise in agricultural production in the affected zones exceeded of the European average.

For the 1994/99 period the objective consists of adapting the programs to the different types of rural zones affected, that is to say, those which suffer from natural disadvantages, those which have experienced negative repercussions of the attraction of large cities and tourist areas, and the zones of traditional agricultural activity affected by the structural evolution of the agricultural sector.

With respect to Objectives 3 and 4 the European Social Fund has taken an important role in training and employment. These measures have helped to improve the structure of the job market and training workshops have played an important part in this process.

Given the rise in unemployment and the deficiencies in professional and technical training in Spain, the aid from the Structural Funds in the 1994/99 period will be principally aimed at the training of the young people. Special care is taken in supporting professional integrations of the young, to the way of integration for the long-term unemployed and people threatened with exclusions from the labour market, as well as the bringing up to date of technological qualifications. The most preventive measures are directed towards the creation of a continuous training system open to as many companies as possible, giving more importance to the modernization of the professional training. Further more it also includes the promotion of regional employment observatories, the

decentralization of the services and the creation of a FORCEM fundacion in favour of continuous training.

As regards Objective 5 b) there were interventions in favouring agricultural restructuring, investment helps were given as well as compensatory indemnities in the rural areas with natural disadvantages such as mountainous areas. Between 1991 and 1993, help to optimize production and the commercialization of products encouraged additional investments three times superior to the Communities contribution.

In the fishing sector, the subsidies served to put into practice the help after the notable reduction in the fleet's capacity, as well as modernising and building ships.

For the 1994/99 period the objective is to pay more attention to product quality, to production and protection of the environment. In the fishing sector, there is emphasis on a series of measures adopted on favour of fishermen, as preretirement benefits or individual aid for younger fishermen wanting to leave the occupation with a view to remedying the social consequences of the restructuring of the sector.

Finally, the Cohesion Fund gives Spain an additional 1,434 billion pesetas for the 1993/99 period. Since its creation in 1993, it has covered 11% of the total cost in our country of protecting the environment and 12% in the transport sector.

Centering on the use of these Funds in least developed regions, the Community Framework corresponding to the 1989/93 period, was almost completed by the end of 1994. The national economic agencies charged with managing these funds were the regional administration (44%), central administration (33%), local administration (7%), public companies (15%) and private companies and other economical agencies (1%).

With reference to the current 1994/99 period, from the adoption and start of the programmes in 1994, they are beginning to become effective in 1995 and in general the fulfilment has been satisfactory according to the 7<sup>th</sup> Annual Report on Structural Funds<sup>3</sup>.

This situation is even more encouraging if we take into account the last Annual Report of the Commission, in which it states that in 1997 it was characterized by an acceleration in the application of the programmes. This rhythm of application was clearly seen in the two main countries benefitting from Objective 1: Spain and Portugal<sup>4</sup>.

Specifically in our country and in accordance with the Report published by the Commission corresponding to 1996, 95% of the initial cost projected in the Community framework has already been programmed and as regards its fulfilment, the most efficient Communities were Valencia, Ceuta, the Canary Islands, Cantabria and Galicia.

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<sup>3</sup> See EUROPEAN COMMISSION, 7<sup>th</sup> Annual Report on Structural Funds, Luxembourg, 1996, p. 27-38.

<sup>4</sup> See EUROPEAN COMMISSION, 9<sup>th</sup> Annual Report on Structural Funds, Luxembourg, 1998, p. 33.

At an institutional level, the highest percentage of cumplition corresponded to the central Administration, followed by regional Administrations<sup>5</sup>.

In general, in the Objective 1 regions, the evaluations confirm the satisfactory progress of the programmes, in conformity with the fixed objectives<sup>6</sup>.

However, if the degree of execution has been satisfactory, we must ask what influence the Structural Funds have had, specially the ERDF in regional development.

In this respect, we must show that the indicators present a very diverse situation. On one hand, areas with high unemployment figures included in Objective 1 regions, in 1993 had higher unemployment than in 1986, although at times they were lower. However the principal indicator of economic growth in Objective 1 regions is the DGP change. In this sense, the DGP per capita of all these regions experienced a slight increase from 62 % of the Community average in 1986 to 64 % in 1991. This slightness of this increase shows the difficulty of reaching real levels of convergence in the Community.

However, this increase has been distributed irregularly between the different Objective 1 regions in 1986/91 period. Thus, Suoth and Eastern regions of Spain experienced a major increase a long with Castilla-la Mancha, Irland and Portugal, moving strongly towards the communitarian average<sup>7</sup>.

As regards the application of the Cohesion Fund in relation to the enviroment, the main priorities of the Fund in Spain have been treatment of water and wastes, the protection and improvment of the cost and the urban enviroment. In the transport field priority has been given to the routes which link Spain with other member States. In general, on a nacional level the priority is the enviroment, as the Commision's Repport shows<sup>8</sup>.

Since 1995, and as a consequence of the Agreement of 21 September 1994, adopted by the central Administration and the Autonomous Communities, the Autonomous Communities take part in the presentation and execution of the projects financed by the Cohesion Fund. Firstly the Cohesion Fund financed State projects, but since the adoption of the Agreement, the part of the Fund corresponding to Spain, has been shared between the different Autonomous Communities. The table no. 1 shows the distribution of payments in 1996 between the different Administrations.

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<sup>5</sup> See EUROPEAN COMMISSION, 8<sup>th</sup> Annual Report on Structural Funds, Luxemburg, 1997, p. 208.

<sup>6</sup> Vid. EUROPEAN COMMISSION, 9<sup>th</sup> Annual Report on Structural Funds, worked cited, p. 120.

<sup>7</sup> See Fifth Period Report on the Social and Economic Situation and Development of Regions in the European Union. There are pleasing signes that the convergence process has sped up since the reform of the Structural Funds, but in general it has been quite slow and the different regions have experienced to different degrees. See p. 124.

<sup>8</sup> See EUROPEAN COMMISSION, Annual Report on the Cohesion Fund 1995, Luxemburg, 1997, p. 17, and Annual Report on the Cohesion Fund 1996, Luxemburg, 1997, p. 18.

**TABLE NO. 1**

	<b>COHESION FUNDS. PAYMENTS RECIEVED IN 1996. DISTRIBUTION BY INVESTMENT AGENCES ( 1000 pesetas)</b>				
	CENTRAL ADMINISTRAT.	AUTONOMOUS ANDINISTRAT.	LOCAL ADMINISTRAT.	PUBLIC COMPAN.	PRIVATE COMPAN.
Andalucía	12.418.344	3.687.222	-	-	-
Aragón	13.362.361	682.647	306.301	-	-
Asturias	6.110.962	814.782	-	-	-
Canaries	973.000	446.075	-	-	-
Cantabria	65.306	42.863	-	-	-
Castilla La Mancha	8.435.259	1.376.720	-	-	-
Castilla León	17.456.201	358.518	-	-	-
Cataluña	25.375.434	14.415.060	3.619.050	-	-
Ceuta	16.177	-	-	-	-
C. Valenciana	20.832.913	2.172.073	-	-	-
Extremadura	633.082	1.058.469	-	-	-
Galicia	31.159.038	753.125	-	-	-
Balearic I.	1.398.563	988.289	212.798	1.705.847	-
La Rioja	486.499	156.429	181.900	-	-
Madrid	11.560.458	717.097	1.459.838	-	-
Melilla	80.105	-	-	-	-
Navarra	358.829	4.093.794	16.780	-	-
País Vasco	1.026.230	3.088.788	1.860.258	-	-
R. Murcia	3.745.959	254.844	-	-	-
Non regional	-	-	-	-	162.262
Various Communities	10.381.814	-	-	-	-
<b>TOTAL</b>	<b>165.876.534</b>	<b>35.106.795</b>	<b>7.656.925</b>	<b>1.705.847</b>	<b>162.262</b>

NB:

In the case of Projects to be completed in various Autonomous Communities, the distribution of funds has been done proportionally, according to the total investment in each Autonomous Community. Therefore, the information collected in this table is an estimate.

Source: Anuario Estadístico de Castilla y León, 1998.

The projects presented by the Autonomous Communities also include the same sectors: roads, drainage and purification of water, waste disposal and urban environment. However, the Commission has noted that the execution of these projects has been slow.

On the other hand, and given that the aims of the Cohesion Fund agree with other Community instruments, the Commission is trying to attend maximum coherence and coordination between them, especially with the Structural Funds and specifically with the ERDF since they can both finance the same type of projects.

In relation to the impact of the Cohesion Fund, this has been estimated in different ways. A study commissioned by the Spanish authorities suggests that even in 1993, when the activities of the Fund were still not fully developed, it contributed 11% to the total costs incurred in the environmental field and 12% in that of transport<sup>9</sup>.

In any case, this success of cohesion should not be confused with harmonization or uniformity, but that its aim is to improve equal social and economic opportunities. In this way, cohesion and diversity are not contradictory objectives but mutually reinforcing ones.

Undoubtedly, the Communities' interventions in supporting cohesion have adopted an important financial dimension in the last decade. The Structural Funds and the Cohesion Fund together represent around one third of the budget for Community measures and nearly 0,5 % of the annual GNP in the Union, as shows the First Report on Economic and Social Cohesion<sup>10</sup>.

In this sense, there are certainly some positive results such as the Objective 1 regions converged in their GNP per capita, reducing the difference from the rest of the European Union by nearly 3 % during the five year period 1989/93, despite its unemployment level worsening seriously. In any case, the truth is that Community structural policies transfer Funds from wealthy member States to the poorest ones, since the amount of aid to the countries of the cohesion has been much higher than the other costs in the rest of the Union.<sup>11</sup>

Regarding our country, the Spanish authorities commissioned a study on the macroeconomic repercussions in Spain which evaluates the global impact of the Fund on the Spanish economy. The final report, presented in November 1995, illustrates the

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<sup>9</sup> See EUROPEAN COMMISSION, The impact of structural policies on economical and social cohesion in the Union 1989-1999, op. cit., p. 60 and 8<sup>th</sup> Annual Report on the Structural Funds, worked cited, p. 12.

<sup>10</sup> See EUROPEAN COMMISSION, First Cohesion Report, worked cited, p. 89.

<sup>11</sup> Worked cited, p. 95.

importance of the Cohesion Fund in supporting the investment efforts of the public authorities even when the total investment volume financed by the Cohesion Fund contributed a relatively reduced percentage to the formation of the total Spanish GDP<sup>12</sup>.

We must show that the aid from the Cohesion Fund is conditional on the benefited States completing the relative procedural criteria of the excessive deficit of the Treaty. In fact, in our country, according to the 1996 Annual Report on the Cohesion Fund, these criteria are completed in order to maintain the status of our country as a beneficiary of the Cohesion Fund. But the Council warned of the existence of excessive public deficit and the need to address this problem.

The regional development funds have contributed to the increase in GDP, although this rise was not excessive. This shows that the convergence in the Community is a slow process and the same has not been distributed equally. The truth is that the Cohesion Fund intended for the least prosperous member States, has helped public investment which must be viewed in a positive way because it stands for a considerable increase in the total resources of such countries.

#### **4.- THE FUTURE REFORM OF STRUCTURAL FUNDS.**

One of the aims of the 2000 Agenda is relative economic and social cohesion. There is no doubt that social and economic cohesion should remain a priority. In fact, the possibility of new member States with different levels of development, demands this even more. In this framework, it is understood that the Structural Funds will have to encourage a competitive development, long lasting economic increase, employment, and promotion of an expert, well trained and adaptable work force throughout the European Union.

The Commission believes that the part dedicated to the structural contributions will have to remain of prime importance in the community budget. Then, structural contributions ( Structural Funds and Cohesion Funds) have risen to 275.000 million ecus (by 1997 prices) from 200.000 million in the 1993/99 period. Furthermore, a budget of 45.000 million has been set up for the new candidates for membership, of which 7.000 million will take the form of aid given before joining<sup>13</sup>.

In order to improve the efficiency of the structural funds, series of measures have been adopted, such as the simplification of its management and the flexibility and decentralization in its completion. In this way, the number of the Objectives will be reduced from seven to three: two regional objectives and one of horizontal character aimed at human resources.

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<sup>12</sup> See EUROPEAN COMMISSION, Annual Report on the Cohesion Fund 1996, worked cited, p. 124.

<sup>13</sup> Vid., Agenda 2000, Por una Unión más fuerte y más amplia, Comisión Europea, Boletín de la Unión Europea, Suplemento 5/97, p. 22.

As regards Objective 1 regions, they will receive around 2/3 of the structural funds, but the limit of 75% of the DGP per capita in relation to the community average will have a strict application<sup>14</sup>.

On the reduction to three objectives, it will be necessary to redefine Objective 2, regrouping the other regions with structural difficulties. Finally, a new Objective 3 will be created, aimed at the development of human resources. This Objective which will include regions not integrated into Objectives 1 and 2, will try to help the member States to adopt and modernize their teaching methods, their training and employment.

Equally, it is considered that the number of community initiatives, of which there are currently thirteen, must be reduced with the end result of improving the community interest and innovative character of the initiatives. The Commission has proposed to limit its number to three areas: international and interregional cooperation, rural development and human resources.

The Cohesion Fund remains the same, in that the member States whose GNP per capita is less than 90% and that have adhered to the third phase of the EMU will still benefit from the Fund. Its budget of 30.000 million ecus has been proposed.

Within the simplifications of the structural policies, it is important to determine a clear appropriation of responsibilities between the national authorities, regional and local authorities and the Commission.

It is recognized that the future growth will mean a strong rise of the population included in Objective 1, but it is understood that the amplification will not diminish the social and regional disparities of the current member States. This is why it is intended that in the new period the structural aid will be centered in those regions with more difficulties which explains the reduction of the Objectives.

The Commission has proposed various Regulations relating to Structural and Cohesion Funds. On 19th March 1998, it presented the proposal for a Regulation to establish general provisions for Structural Funds (Council Regulation (EEC) N° 176/98), a Regulation relating to the ERDF (Council Regulation (EEC) N° 176/98) and a Regulation (Council Regulation (EEC) N° 159/98) modifying Regulation (EEC) N° 1164/94 which established the Cohesion Fund.

The first proposal of this Regulation contains the reduction in the number of objectives. Objective 1: promoting development and structural adjustment in the least-developed regions. Objective 2: converting regions with structural deficiencies. Objective 3: adapting and modernizing the policies and systems of education, training and employment. (Objective 3 will affect regions or areas not included in Objective 1 and 2). ERDF will contribute to Objectives 1 and 2. Objective 1 regions will still be considered as those whose DGP per capita is less than 75% of the community average.

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<sup>14</sup>For those Objective 1 regions which exceed 75% GNP for a temporary period, a progressive retraction of Funds is foreseen.

Equally, community aid will still be regarded as complementary and additional to state benefits. Close cooperation is intended between the Commission, the Member State, regional and local authorities and other economic agencies. The total budget proposed for the 2000/2006 period will be a 218.400 million euros.

In respect of the working side of the Funds, firstly a plan is needed that analyses the economic situation of the Member State, the objectives and the necessities. Next, the Commission would pass the framework which describes the strategy and priorities of the Funds and of the Member State, its specific objectives, the sharing of the Fund and other financial resources.

The ERDF, will contribute to finance productive investments, to create longterm jobs; infrastructure investments; technical assistance measures and the indigenous potential development.

Finally, with regard to the Cohesion Fund, the aid will be maintained for the current recipient States. In 2003 there will be an intermediate revision, in the same way as there has been for the current period. The resources for the 2000/2006 period may reach 21.000 million euros.

To conclude, the importance of Structural Funds and Cohesion Fund as fundamental means of social and economic cohesion is evident. However, it is also clear that after the reform, some regions may stop receiving Funds which would imply a reduction in resources. In order to avoid drastic restrictions on resources, temporary aid would be arranged to Objective 1 regions. Finally, we must not forget that regional situations and existing interterritorial differences are going to be seriously affected by the economic characteristics of new member States. Therefore a large effort must be made in this period before the growth of the Union.