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The Impact Of Structural Funds And Cohesion Fund On The Development Process Of Greece (1989-1999) And The Relevant To Objective 1 Reforms Of The Structural Funds (2000-2006).

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**Subject: The impact of Structural Funds and Cohesion Fund on the development process of Greece (1989-1999) and the relevant to Objective 1 reforms of the Structural Funds (2000-2006)**

**ABSTRACT:** The first part of my paper will be concerned with assessing the overall impact of EU structural policies at Member States level (Greece). This will include an analysis which will be structured three main parts.

The second part will refer to the reforms of the Structural Funds (2000-2006) and especially to those of Objective 1, given that Greece, as it is well known, is eligible under this Objective. More specifically a sensitivity comparative analysis between the former (1994-1999) and the revised Regulations (2000-2006) will be carried out using considerable and reasonable arguments

In the last part of my paper, I will work out a global assessment of the overall aforementioned analysis, which will also include the conclusion and proposals.

## **PART A**

### **THE IMPACT OF STRUCTURAL FUNDS AND COHESION FUND ON THE THE DEVELOPMENT PROCESS OF GREECE (1989-1999)**

#### **1. The time evolution of socio-economic problems in Greece and the challenge of cohesion**

The performance of the economy deteriorated in the 1980s and, for over the decade, the Greek economy has been characterised by macroeconomic imbalance combined with weak competitiveness. Thus, the low growth rates of the economy have caused a lack of convergence in GDP per capita and the gap in relation to the EU average has failed to close over the last decade. Even though the existence of a large underground economy and an increase in population of about 0,5% annually, distort this indicator, there was little doubt that progress in convergence was proving difficult to achieve, during the aforementioned period. So, the structural weaknesses of the Greek economy, according to 1993 estimations, were indicated by the overall level of GDP per capita, which was about 60% of the E.U. average, while, as we all know, all eligible Objective 1 regions are well below 75% of the E.U. average. More specifically, the state of public finances was characterised by high levels of public debt (117,9%, of GDP in 1993). A further structural problem was the marked inadequacy of basic infrastructures and public facilities, as public investment had been neglected for the last two decades. Also, education and especially training remained at a low level of development. Apart from these both industry and agriculture suffered from weak performance, with low competitiveness and a vulnerable enterprise fabric marked by the preponderance of very small firms. There were also serious regional imbalances, with a third of the population and even more of the economic activity being concentrated in the Greater Athens area. Another important impediment was the general ineffectiveness of the public administration, which totally lacked a development mentality and orientation. Finally the geographical position of the country, which is characterised by peripherality and remoteness from the core European markets, posed a further obstacle to the development of the country. Nevertheless, since 1994, the GDP growth rate has shown a remarkable improvement, passing from 1,5% in 1994, to 2,0% in 1995, 2,5% in 1996, 3,2% in 1997, 3,7% in 1998, 3,5% in 1999 and an expected 3,8% in 2000. The figures for

unemployment are also better than those planned and the unemployment rate has been kept under 10% of the labour force. More specifically, the unemployment rate was grown and reached the 9,8% from January to October 1998 compared to 7,8% of the same period in 1997. The general government budget deficit as a percentage of GDP has been lowered from -12,1% in 1994 to -9,2% in 1995, to -7,4 in 1996 and it had shown a considerable decrease in 1997 (i.e. -3,9%), which, throughout the last 2 years (1998 – 1999) had declined slightly to -2,4% and -1,9% respectively and it is estimated that it will remain fairly steady (-1,7%) until the end of 2000 whereas the public dept was also decreased by 106,1% of GDP. The high rates of increase both of private and public investments were continued during the 1998 (increase of 8,45 and 13,7% respectively) and we observed the same percentages in 1999. Inflation was also considerably lowered and fell below 10% in 1995, for the first time, in 22 years and from then it has declined steadily from 5,5% in 1997 to 4,8% in 1998, closing at 3,9% in 1999 and it is expected to decline more, at about 2%, during the summer of 2000, while interest rates are following suit. At the same time, the rate of gross fixed capital formation showed a remarkable recovery rising from - 2,8% in 1993 and 0,5% in 1994, to 5,8% in 1995 and 10,1% in 1996. The above mentioned macroeconomic factors accompanying by the prospects of political stability and the continued reform process permit Greece to create a more favorable investment climate which contribute to a real and sustainable convergence process. Under these circumstances, the prospects of its economy seem promising and our Country will be ready to enter into Euro Zone the Zone of EURO in the year 2001.. Moreover, as the time approaches for Greek to join EMU (it has already fulfill the EMU entrance criteria and it is expected to be accepted by the end of June), post-EMU issues such as convergence in per capita income to the EU average or “real” convergence begin to move to center stage. Indeed, as was mentioned earlier, the rate of growth of the Greek economy in recent years has exceeded the European average. Growth is based on high rates of both private and public sector investment, the latter being co-financed with EU funds. The inflow of EU funds, amounting to approximately 4% of annual GDP, also helps reduce the current account deficit. This inflow will continue in the years 2000-2006 under the Community Support Framework III and is expected to reach an approximate cumulative amount of 25 billion euro (the impact of EU policy in Greece, is analysed below). Generally, the major challenge for Greece in

the immediate future is to fully modernize its productive capacity in order to be able to compete on an equal footing with its European partners. Investment in infrastructure projects, such as roads and airports, comprises an important first step, but is not sufficient. It is also essential that radical and immediate structural reforms take place in the labor market, social security and health care, and that the productivity in the general public sector be enhanced. It is no coincidence that surveys on the Greek economy, published by the European Commission, Moody's Investor Services and other international organizations, all return to the central theme of structural reforms.

## **2. The impact of the EU effort at promoting cohesion in Greece Through various channels:**

- The assistance provided by the Structural Funds

The assistance provided by the Structural Funds in the context of the Objective 1 reached 7,528 MECU or 82% of the total Community structural assistance during the period of the first CSF (1989-1993) (Table 1a of the Appendix). This corresponds to an annual transfer per head of 150 ECU and, in terms of annual average GDP, to 2,2% of GDP, when the national public counterpart and private financing are also considered, the Objective 1 interventions represent 3,5% of GDP. For the period of the second CSF (1994-1999), the Structural Funds provided 13,980 MECU in the context of the Objective 1 or 78,8% of the total Community structural assistance (in 1994 prices) (Table 1b of the Appendix). This corresponds to an annual transfer per head of 225 ECU and, in terms of annual average GDP, to 2,9% of GDP, when the national public counterpart and private financing are considered, the Objective 1 interventions in this period represent 6,2% of GDP. It is evident that magnitudes, such as the ones mentioned above, can have an important macroeconomic impact. An estimate by means of an input-output approach suggested that, even if one is limited to the demand-side effects, the E.U. assistance must have added about 4 percentage points to GDP between 1989 and 1993 and in the region of 6 percentage points between 1994 and 1999. In terms of average annual growth rates, this impact represents an additional growth rate of 0,8 and 0,9

percentage points for the two periods respectively. These effects have been crucial in enabling Greece to avoid an increase in the gap between its own GDP per head and that of the E.U. average. They are also of central importance to the favorable prospects for the achievement of some degree of convergence during the present period.

More specifically:

→ As regards the effects of employment, it is estimated that during the 1983-1993 period the employment of 3,5% of the active population was linked to the assistance provided by the Structural Funds. This implies that 130.000 jobs were supported directly and indirectly by the implementation of actions co-financed by the Structural Funds. During the 1994-1999 period, the employment supported by structural aid rose to 180.000 jobs or 4,5% of the active population. It is again evident that in the absence of these effects, it would not have been possible to restrain unemployment below 10%. Thus, despite a determined policy of protecting employment, even to the detriment often of the necessary restructuring of various sectors, the present number of jobs could not have been sustained and Greece's unemployment rate would have exceeded the European Union's average.

Turning now to the three broad categories of infrastructures, human resources and productive environment and examining them one at a time, a number of important results need to be noted.

→ Infrastructures: This category, received 32,6% of all E.U's allocations to Objective 1 in the 1989-1993 period and constituted the most important category of spending. Later, it was increased even further in the 1994-1999 period reaching the 41,4% of total Community expenditure. These global magnitudes hide an important difference in the character of infrastructure expenditure between the two periods. In the first period, the E.U's policy was marked by the desire to reduce the internal disparities among Greek regions. So the emphasis was on small infrastructures, while in the second period there was a strong emphasis on large infrastructure projects of major importance to

the national economy. The current strategy holds the promise of making a major impact on the structure and productivity of the Greek economy.

- Transport: In this area, the change was considerable, as the finance provided by the Structural funds and the Cohesion Fund made possible, for the first time for 30 years, the undertaking of very large projects. Thus, the motorway network, which had a length of 90 km in 1998 was planned to reach 980 KM in 1999. The two motorway axes, PATHE and EGNATIA, will reduce by about 7 hours the time of travel from their one extreme to the other, while savings in vehicle-hours per year were estimated at 24 million in 1999. Significant progress is also to be made in railways, ports and most notably, airports with the construction of the new International Airport of Athens in Spata (it will be ready in Autumn 2000). The Athens Metro was considerably expanded with the construction of two new lines of 17 km (Ethniki Amyna – Syntagma- Sepolia) increasing its transport capacity by 50%, and will be expanded more in the near future. This is expected also to make a major contribution to the environment, by reducing air pollution in Athens. (relevant maps in Appendix).
- Telecommunications: In telecommunications, Community aid has made possible important developments. In particular, it had supported the installation of 540.000 telephone lines, which represented 10% of total capacity existing in 1993. Given the major investment programme of the Greek Telecommunications Organisation, it may be expected that the gap in this area between Greece and the more developed European economies will be considerably reduced. The targets for 1999 included 80% digitalisation of the telephone network.
- Energy: In energy, apart from oil imports, Greece is dependent on the domestic production of lignite, the quality of which tends to worsen making it less economic and more polluting. The assistance provided by the Structural Funds will make positive a diversification of energy sources with the introduction of natural gas. A total of 7.000km of pipelines and 20 stations of reception/transformation were to be constructed, with the aim of producing

12% of total electricity on the basis of natural gas. The expected effects include considerable benefits not only for the consumer but also for the environment, with a significant reduction in the emission of sulphur dioxide and carbon dioxide into the atmosphere.

- Health infrastructure: Progress has also been made in the area of health infrastructure. In the period 1989-95, about 2.700 beds had been added to the regional hospitals, outside Athens and Thessaloniki, reducing the disparities between the regions and the capital. Nevertheless, with 497 hospital beds per 100.000 persons in 1993. Greece has less than half the corresponding figure for Luxembourg, the Netherlands and Finland and it was still below the E.U. average. During the period 1994-1999, new hospitals were constructed in the regions and the quality of health services was consequently improved. The equipment of both hospitals and health centres were modernised and the training of hospital and paramedical staff was improved. In particular, health-care staff without basic training was planned to drop from 26% of the total in 1990 to under 13% in 1999.
- Human resources: With respect to human resources, the priorities aimed at the development of the education and training capacity, a change in the balance between general education and professional training in favor of the latter. E.U's aid in this area represented, in terms of total national expenditure, 24% and 32% respectively for the periods 1989-93 and 1994-99. More specifically in the period of 1989-93, 460.000 persons participated in training actions which roughly corresponds to 10% of active population. Of these, 25% were unemployed, 25% in risk of unemployment, 33% young persons in secondary and tertiary education and 12% persons with special needs. Targets of a similar order of magnitude had been planned for the period 1994-99. Of course, it is difficult, at present, to measure the impact of these training actions on the employment prospects of the trainees and, more generally, on the level of unemployment because the monitoring system does not provide the necessary information for such estimates. As regards the capacity of education/training, between 1989 and 1994, 7.200 new classes were constructed for primary and



secondary schools, providing 22.000 additional student – places. In secondary technical education, the number of students increased by about 22%, passing from 119.000 students in 1989 to 146.000 in 1994. As a result, the ratio of technical to general education at secondary level had increased from 18% in 1990 to 20% in 1994. Actions for the promotion of research and development constituted a priority for the whole 1989-99 period. At the same time, the connection between research and the needs of the productive environment had improved. More specifically, 350 research projects were financed in the 1993-99 period, while the number of researchers had increased from 10.000 in 1989 to 16.000 in 1993 and it was planned to increase further to 19.000 in 1999.

- Industrial Sector: With respect to the productive environment, E.U aid has been of crucial importance and it represents more than a third of total public expenditure for the reinforcement of the competitiveness of Greek enterprises. Though industrial policy in the period 1989-93 lacked clear aims, the actions undertaken contributed to: 1) a better installation of Small Medium Enterprises, with the improvement of 22 industrial zones 2) the creation and modernisation of SMEs, with the support of 400 investment projects, and 3) the improvement of the labour force's qualifications, with the training of 130.000 persons. For that purpose, more than 900 studies were carried out concerning the modernisation, reorganisation and market prospects of SMEs. Nevertheless, a constraint during this period was the complexity that characterised the administrative mechanisms and the system of evaluation for investment projects. The policy in the 1994-99 period was more ambitious and aims at the support of SMEs that were oriented towards the international markets, while simplifying the administration of financial incentives and aid-authorisation. An important institutional innovation in this context is the creation of a “one-stop-shop “ mechanism. It was expected that, as a result of this programme, exports would be increased as a proportion of total industrial production from 20% in 1992 to 30% in 1999. So far, it is encouraging that private sector investments are increasing both in terms of number as well as volume.

- Agricultural Sector: This sector has a particular importance for Greece, given that it provides employment to about one fifth of the active population and is responsible for 15% of GDP and 30% of total exports. The support by the Structural Funds takes many different forms and ranges from assistance to the productive activities of the primary sector to the preservation of the environment and the maintenance of population in disadvantaged zones by means of compensatory aid. The assistance to productive activities included 850 investment projects for the improvement of processing and marketing in the 1989-93 period, rising to 1.200 projects in the 1994-99 period, as well as support to agricultural and rural basic infrastructure. It was expected that during the whole 1989-99 period, the Structural Funds would make possible 5.500 investment projects in agri-tourism and handcrafts. E.U. assistance would also make possible the modernisation of water management concerning 123.000 ha of agricultural land by reducing water-loss and distribution costs and by increasing water-storage capacity, especially in islands, by nearly 50 million cubic meters. Moreover, 8.500 ha of vineyards would be restructured, while interventions in other sectors (e.g. apricots, olive grooves, stock breeding) would continue to improve their performance in terms of product quality. Generally, according to existing evaluation 40.000 jobs have been maintained in the primary sector as a result of the 1989-93 interventions and 50.000 jobs will be concerned by the 1994-99 programmes. Also, 50.000 agricultural holdings were to be modernised in the 1994-99 period (compared to 45.000 in 1989-93) and 14.000 young farmers will be helped to start up (compared to 2.000 in 1989-93). Finally, 250.000 agricultural holdings would benefit each year from compensatory payments in the 1994-99 period (against 190.000 each year in 1989-93), making possible the continued stay of a considerable part of the population in disadvantaged zones. It may, nevertheless, be noted that despite these efforts, the size of investment and the improvement in competitiveness seem to be below the desirable level.
- Fisheries Sector: In the case of fisheries, the three main priorities of the structural interventions were: 1) the adjustment of the fishing fleet 2) the

increase in aquaculture production and the improvement of fish processing. In the 1989-93 period, 190 investment projects in aquaculture, especially the sea-water kind, had been financed and 29 projects concerning processing, with the aim of increasing production. On the other hand, significant progress was also made in the reduction of the fishing fleet in order to achieve a balance between fishing effort and the fisheries resources though its extent was below the targeted level.

- The assistance provided by the Cohesion Fund

Since its establishment, in 1993, the Cohesion Fund has uninterruptedly provided assistance for the protection of the environment in Greece. Since levels of assistance for each project are high (80-85%) Greece has benefited enormously in both the fields of environment and transport. The allocated budget is almost balanced, allocating, in 1997, 43% of the assistance of environmental projects and 57% to projects in the transport sector (Table 2 of the Appendix).

More specifically:

→ In the environment sector, all the work done is in line with the objectives of the fifth programme on the environment and sustainable development and in accordance with the E.U. strategy for 2000. In this sector the main objectives that Cohesion Fund is providing assistance for are the following:

- water supply-water resources management,
- waste water collection and treatment,
- increasing environmental awareness-research and education for the environment,
- improving living conditions.
- restoration of biotopes.

More specifically:

-water supply-water resources management: The assistance of the Cohesion Fund for drinking water is mainly focused on problems that arise with quality

and quantity. Most of the projects financed deal with the supply of water to major cities suffering from water shortages due to a high degree urbanisation. However, projects concerning the water supply of other smaller Greek cities are also co-financed. In the case of the Evinos project to supply water to Athens, the Cohesion Fund had paid attention to the sound management of water resources and improvements to the pipes supplying water to capital. It has also continued its integrated approach to water supply to other Greek cities by financing projects intended to solve the problems of water supply and disposal, particularly in the cities Rethymno, Naousa, Larissa, Nafplion, Chalkida, Florina, Lamia and Katerini (see relative map of the Appendix)..

-waste water collection and treatment: The Cohesion Fund contributes to a large number of waste water treatment projects. The main objective is the upgrading and preservation of the environment, the protection of public health and the improvement of living standards in degrading regions. The assistance is granted provided that: a) the projects form part of coherent overall integrated strategy and b) the beneficiary town is near to a sensitive area or has a population of more than 15.000 inhabitants. The Cohesion Fund has made a decisive contribution to the design and construction of waste water treatment and collection units throughout Greece over the last five years. The co-financed projects concern either the complete design and construction of sewer-age systems and waste water treatment plants, or the expansion and improvement of already existing units. The above mentioned projects, include the secondary waste water treatment of two major projects in the greater Athens area and in the city of Thessaloniki. It also part-financed the second stage of two-stage projects in medium and smaller-sized towns across the country, as well as in a significant number of islands, paying always particular attention to ensuring that the infrastructure complied with the environmental requirements imposed by E.U. legislation. The overall scope is the financing of complete and operative projects and not individual projects scattered all over the country (see relative map of the Appendix).

-increasing environment awareness- improving living conditions: The Cohesion Fund assisted in construction of a centre aiming at developing the environmental conscience of the general public, which is called <<Gaia Centre>> for environmental research and education and is situated in Athens (currently being constructed). It will focus on the environment on all of its three mission areas (namely, research-education-public service). The priority objectives of the Gaia Centre are: a) monitor the quality of soil, water and air for the protection of the environment, b) assess environmental pollution and develop remediation measures and c) provide scientific and technological support for an environmentally friendly development of industry and agriculture. The expected benefits from the aforementioned Centre include: a) the increasing of public awareness, b) the advancement of environmental sciences and c) the reorientation of education towards sustainable development. The Cohesion Fund also, giving high priority to the conservation of the natural environment and the protection of coastal areas and islands, supports important studies aiming at the conservation of ecosystems and the development of integrated solutions for the islands. Namely it is supporting a pilot study for the island of Santorini for addressing the environmental issues of the island. The originality of the study is based on the fact that environmental problems throughout the whole geographical area of the island are dealt with, in an integrated way. Thus, this study is of great interest since it is expected to provide a global approach concerning: a) water supply, b) waste water treatment and c) solid waste. So it leads to the improvement of living conditions on the Greek islands, especially during the summer period. Therefore, it is expected that the thousands of tourists that Santorini and the other Greek islands attract every year will be accommodated more comfortably, given that the study will be used as a model for all of them, facing similar problems during the summer.

-restoration of biotopes: The Cohesion Fund is supporting a master plan which will examine the water balance and the physical chemical and biological conditions in Lake Koronia, which is located in northern Greece (12 km north-

east of Thessaloniki), and is described as a relatively small shallow water body. In 1975, the area around the Lake was chosen among eleven sites in Greece that were designated for protection, under the Ramsar International Convention on wetlands, as it is of international importance for migratory and indigenous birds. Currently, this Lake is undergoing a severe ecological crisis and the risk of its total destruction or even disappearance not only exists, but it is evident. The reason of this is a coincidence of unfavorable weather conditions, a reduction of its natural feed waters, a rapid increase in the consumption of its water due to production activities and the lack of appropriate development planning. More specifically, Lake Koronia exhibits heavy pollution from a number of sources, (such as municipalities, industries and agriculture). The master plan that is supported by the Cohesion Fund, is expected that will identify viable solutions for the preservation of this important wetland.

→In the transport sector, all the necessary precautions are taken into account so that the projects financed are completed without any effect on the environment.

The strategy followed up-to-date focuses on:

- promoting sustainable development, and
- improving modal split/shift.

For the realization of the above, the Cohesion Fund contributes to the completion of the transport programmes of Greece, financing investments in:

- Greece's two key motorways,
- The rail network, encouraging modal split/shift,
- Major ports such as Pireas, Igoumenitsa and Iraklion, again encouraging modal split/shift, and
- The new Athens international airport at Spata.

More specifically:

- Greece's two key motorways: Cohesion Fund support is mainly based on a) the projects of PATHE. This motorway crosses Greece from south to north and has total length approximately 730 km but the sections supported by the

Cohesion Fund include the Patra bypass, the Yliki lake area, as well as the axes Skotina–Katerini and Raxes-Pelasgia (a total amount of ECU 242 million has been granted for these works) and b) Egnatia. This motorway is a project of major significance and international calibre. With its nine perpendicular road axes, communication channels are opened towards the north and to Aegean sea, connecting the north of Greece with the existing hinterland in the Balkans, the neighbouring countries of the Black Sea and Eastern Europe. The sections that have been supported by the Cohesion Fund include the Kavala bypass and the west sector of the motorway (a total amount of ECU 205 million has been granted for these works). Particular concern is paid to the impact of these major road axes on the environment, integrating the construction works with the natural features of Greece and with its cultural heritage and tradition. This approach includes the: a) wildlife protection, b) the landscape protection, and c) the archeological sites protection, during both construction and operation of the aforementioned works. In particular, 7% of the total budget (2.450 million ECU) of the Egnatia motorway (e.g. 172 million ECU), has been allocated to environmental protection works, while for PATHE the additional cost for the archeological excavations alone is estimated to be 9 million ECU (total budget 1.900 million ECU). Hence, both the PATHE and Egnatia motorways will improve significantly: a) the safe access to the regions they serve, providing connections between north, south, east and west parts of the country, and b) the environmental protection (see relative map of the Appendix).

- The rail network, encouraging modal split/shift: In line with the E.U. policy and objectives, the Cohesion Fund support gives priority especially to: a) The construction of standard gauge double line in part of the rail network. This work comprises the construction of standard gauge, high speed double line for the 35km section from Evangelismos to Leptokarya, which is part of the improvement of the Athens-Thessaloniki line. This intervention is very important as it will reduce the journey time and improve the

accessibility to northern Greece, to the international airport of Thessaloniki and to the northern international railway gates of the country (total cost 251,4 million ECU, Cohesion Fund contribution 85%, e.g. 213,7 million ECU). b) The Thriassio railway station, where more lines are built to connect the complex with existing track, making provision for combined transport. The project concerns the construction of the new central commercial station and marshalling yard of the Athens area at Thriassio Pedio, and the corresponding connecting line from Athens (at Anno Liossia). These installations will put together in a single place various rail activities that are currently scattered in several locations between Athens and Pireaus, improving efficiency, reliability, and level of services provided. In that view, we have a relocation of the commercial station and maintenance facilities outside the centre of Athens, that will have major benefits from both environmental and town planning points of view (total cost 120 million ECU, Cohesion Fund contribution 85%, e.g. 60 million ECU). c) The construction of the line linking Thriassio station to the city of Corinth. The technical works for this section include various bridges and tunnels as the line has to go through complicated topography and coexist with major road axes (PATHE, etc). The new line will reduce the journey time from Athens to Patra by 1h 15 min and improve the international connection (passenger and commercial) of Greece with the E.U. via Italy (total cost 280 million ECU, Cohesion Fund contribution 85%, e.g. 140 million ECU). d) The electrification of the network. This project concerns all the necessary infrastructure for the electrification of the 250 km rail network from Pireaus to Athens and Thessaloniki. Electric traction is more reliable, safer, and provides higher levels of comfort. It also reduces the environmental impacts of the train as it has no air pollutant emissions along the line (total cost 179,7 million ECU, Cohesion Fund contribution 85%, e.g. 152,7 million ECU). (see relevant map of the Appendix).

- Major ports such as Pireas, Igoumenitsa and Iraklion: The Pireaus port project illustrates the policy of the Cohesion Fund in the best way. The



works comprise: a) the Neo Ikonio container terminal, which has been constructed a few km from the central port of Pireaus, and b) view of the ring road. In order to support its effective implementation, the Cohesion Fund has supported three important studies. Namely: a) Master plan study for the port, b) Environmental impact assessment study from the implementation of the investment programme, and c) Feasibility study for the railink between the container terminal and the Thriassio Pedio commercial rail station. This strategic plan is expected to provide considerable opportunities for the port to be used to forward cargo in the Balkans and also emphasises the need for the existence of a modern efficient container terminal.

### **3. The results of the E.U. interventions (via Structural Funds and Cohesion Fund) and its contribution to the development process of Greece**

- The contribution of the Structural Funds

The contribution of the Structural Funds has been and continues to be of crucial importance to the development prospects of Greece. Its influence has been substantial at a number of different levels and may be summarised as follows:

→ It made possible a high level of investment, that affected the structure of the economy and acted as a level for the participation of private capital and EIB loans in the development effort. In particular, it is estimated by the evaluation studies, that E.U. assistance has enabled public investment during the 1989-93 period to be twice as high as the state of budget finances would otherwise have permitted. A major weakness of the Greek economy has been the low level of gross fixed capital formation and it is exactly here that the Structural Funds have made an important contribution. Moreover, with the continued support of them, it had raised the rate of gross fixed capital formation from an annual average of 1,5% during the 1989-93 period to 6,6% in the 1994-99 period. Furthermore, it should be noted that the E.U. aid in the 1994-99 period represents a critical mass, which has an importance and provides financial guarantees that can support the acceleration of the adjustment process and the realisation of projects, with strategic significance for the economic and regional development of the

Country. For this purpose, the principle of additionality, was respected and strictly adhered during all the examining period. In providing the impetus to economic development, the E.U. aid has become an effective level for the mobilisation of private capital and foreign loans. More specifically, it was expected that, in the 1994-99 period, there would be a major mobilisation of private capital, on the basis of financial engineering which would optimise the relationship between structural aid and loans. Thus, the financing of structural actions by private capital passed from 7% in the 1989-93 period to 29% in the 1994-99 period. The recent recovery at the macroeconomic level and the determined attempt to improve the state of public finances, should make the ambition increasingly credible.

→ It made possible a higher rate of growth and supported higher employment. This aid had enabled Greece not to diverge much during the 1989-93 period and to initiate a convergence process in 1994-99 period.

→ It had allowed the adaption of pivotal institutions and policies, thus reducing the constraints to performance. Beyond its financial importance and its quantitative impact, E.U. assistance had included changes of policies and institutions and had legitimised efforts at reform, that were of far-reaching importance both to the administration of the public sector and the performance of the economy. With respect to institutional change, the structural interventions had been responsible for a major transformation in the mode of public expenditure and, in particular, in the change from individual, usually small, projects to management by objective in the context of integrated long-term planning. In order to alleviate the weaknesses of Greek public administration, that constrained the aforementioned transformation and to make more flexible and effective the implementation of interventions, ad hoc agencies and organisations were put up to function according to private law and the logic of the market. Such examples are the agencies for the large projects, the “one stop-shop” organisation for private investments, the organisation for the certification of training actions etc. Moreover, a special unit was created to attend to the needs for technical assistance and offer appropriate “turnkey” technical support to the realisation of the actions. The establishment of this “ Management Operational Unit” has unfortunately been slow, though it is clear that the achievement of the targets , which have been set by the

current plan, are dependent on its effective operation. Furthermore, the system of public works is going through a process of modernisation leading to an improved coherence with E.U. law and driven by a value for money approach.

- The contribution of the Cohesion Fund

The Cohesion Fund contributes to both development and protection of the environment, moving from cure to prevention. However, having regard not only to subsidiarity but also to added value, it compliments the effort of the Member States (in our case Greece) in this field. Hence, we can say that the achievement of the desired balance between human activity and development and protection of the environment, requires the integration of environmental issues into the other policies of all actors. Namely, the E.U., the Member States, regional and local authorities. In other words, the co-ordination of the policies of the above mentioned patternes, is the Keynote for the success of their mission. Therefore, for a sustainable developmennt to be attained, patterns of behavior and consumption should be changed and this requires positive will at all political levels and the involvement of all members of (in our case) Greek society.

Finally, it is important to mention the role of evaluation in its three levels(ex-ante, on going and ex-post), in increasing the transparency and efficiency of public administration. In particular, the system of evaluation promoted by the structural interventions, including the monitoring mechanism and the project selection methods, have made a considerable difference to the efficiency of management and the level of performance by both central and regional administrations. Generally, the improvement of programming, co-ordination, management , evaluation and control, at all levels of public administration, are essential for socio-economic development and E.U. assistance has been instrumental in bringing about such an improvement. In conclusion, if we try to make a comparative analysis of the whole contribution of Structural Funds and Cohesion Fund to Greek Development, we can say that their interventions linking back to the aims that were established originally, apart from the several constrains were efficient and sufficient.

## **PART B**

### **THE RELEVANT TO OBJECTIVE 1 REFORMS OF THE STRUCTURAL FUNDS (2000-2006)**

On 24<sup>th</sup> and 25<sup>th</sup> March 1999, the E.U. in Berlin reached political agreement on the “Agenda 2000”, package concerning the financial perspectives for the period 2000-2006 and the draft regulations governing the Structural Funds, the Common Agricultural Policy, and the pre-accession instruments for candidate countries. This Agenda, consists of a series of complementary reforms responding to the challenges which the E.U. will face in the coming years, namely:

- the future enlargement of the union to include countries which total around 105 million inhabitants, but where the average income per habitant is barely a third of the average of the 15 current Member States,
- the budgetary rigour required to ensure successful implementation of economic and monetary union,
- the increased competition resulting from the “globalisation” of the economy, which will make it necessary to help disadvantaged regions and the most vulnerable groups on the labour market, in order that they might benefit from new development opportunities.

In this contex, the objectives and the resources of the Structural Funds for the most disadvantaged regions and social groups, in other words the implementation methods of the E.U. economic and social cohesion policy, had to be redefined. Therefore, the regulatory framework for the Structural Funds for the period 2000-2006 has been simplified as follows: a) a new general regulation will cover all the principles common to the Structural Funds priority Objectives, programming methods, financial management, evaluation and control, and b) new regulations specific to each of the Funds will detail their respective fields of intervention.

In this part of the paper I am examing only the relevant to Objective 1 reforms of Structural Funds. In particular, I am working out a comparative analysis of the main

elements of the revised 2000-2006 regulations, explaining aspects which have been added or changed compared to the former regulations for the period 1994-1999.

### 1. The priority of Objective 1 and the Structural Funds

→The Objective 1 priority, for the period 2000-2006, remains unchanged compared to those of 1994-99, remains unchanged (e.g. is to promote the development and structural adjustment of regions whose development is lagging behind). In addition, the regulation stipulates that regions currently eligible under Objective 6 and the outermost regions, as defined in the Amsterdam Treaty shall be integrated into Objective 1 for the period 2000-2006.

→The Structural Fund allocations for Objective 1 will be not changed. Thus they will be divided as follows, for the period 2000-2006:

-ERDF:The European Regional Development Fund

-ESF:The European Social Fund

-EAGGF-Guidance:The Guidance section of the European Agricultural Guidance and Guarantee Fund.

-FIFG:The Financial Instrument for Fisheries Guidance, which is henceforth a Structural Fund.

### 2. Eligible Regions under Objective 1 status

→The regulation states that the list of eligible regions for the 2000-2006 period, adhering strictly to the same criterion as before (i.e.NUTS II regions whose per capita GDP is less than 75% of the E.U. average. Furthermore, the revised regulations (2000-2006), specifies that the outmost regions (the French overseas departments, the Azores, Madeira and the Canary islands) (relative map in the Appedix), all of whom have a GDP per capita of less than 75% of the E.U. average, plus the regions currently covered by Objective 6 (development of regions with an extremely low population density), will also be eligible under Objective 1 status between 2000-2006.

→The revised regulation establishes a transitional assistance mechanism for regions eligible under Objective 1 in 1999 but which will no longer be eligible in 2000. Thus a new regional programme will be supported by the Structural Funds generally until 31 December 2005. Those areas which will continue to receive ERDF assistance in 2006, will be determined at the same time as eligible under Objective 1 regions.

→In accordance with the decisions taken by the European Council in Berlin, the following two special programmes will be financed within the framework of Objective 1:

-The PEACE programme, which supports the peace process in Northern Ireland (currently financed within the framework of the E.U. initiatives), will be extended for a period of 5 years. The programme will be allocated 500 million euro of E.U. funding of which 100 million will be allocated to the Republic of Ireland.

-A special assistance programme which will be allocated 350 million euro for the period 2000-2006, will support Swedish NUTS II regions which meet the criteria for low population density as defined by protocol nr.6 annexed to the Swedish Act of Accession.

### 3. Financial resources of Objective 1 regions

Budgetary resources have been divided among the Objectives with the aim of a significant concentration on Objective 1 regions. More specifically, the 69,7% of the total Structural Funds budget (195 billion euro for the period 2000-2006 ) will allocated to Objective 1 regions (i.e.135,9 billion euro), 4,3% of which will be allocated to regions in transition.

### 4. Programming of Objective 1

The revised regulation specifies that CSFs and Operational Programme (O.P) should be used for Objective 1, except where the E.U. allocation is lower than 1 billion euro. In that view, the programming for the new period 2000-2006, concerning Objective 1 status, compared to the former one, will include two new elements:

→The first specifies that immediately after the adoption of the regulation governing the Structural Funds, the Commission will formally adopt its guidance on the common priorities for the Objectives 1,2 and 3. After this procedure, as it is already in the case, the Member States will draft their plans and, in cooperation with the Commission, compile CSFs, Ops and SPDs, which will cover strategic priorities, financial allocations and

methods of implementation. However, the Ops and SPDs will no longer contain details on the measures to be funded, as was the case for programmes drawn up for the 1994-99 period.

→The second stipulates that after adoption of the Ops and Single Programming Documents (SPDs), the Member States or the regions responsible, must adopt new, complementary programming documents for each programme, which primarily indicate the beneficiaries and the financial allocations for the various measures proposed.

#### 5. Additionality concerns Objective 1 status

The revised regulation stipulates that in the future the geographical level of verification will be simplified to cover all lagging regions covered by Objective 1 Within the Member State. Verification will be restricted to three instances: a) following the adoption of CSFs and SPDs, b) mid-way, before 31 December 2003, and c) towards the end of the period, before 31 December 2005. To this end, the new regulations specify that the Member States will provide the Commission with the appropriate information at each of these three stages. For the ex-ante verification, in particular, the future programming documents (CSFs or SPDs) should indicate both for the former and revised regulation periods, the total public or comparative expenditure in the regions eligible under Objective 1. Globally, the level of national expenditure involved will be agreed between the Member States and the Commission, in principle at a level at least equal to that achieved in the previous programming period.

#### 6. Cofinancing rates for Objective 1

For the 2000-2006 period, the revised regulation specifies that the general rates will remain unchanged. However, the following ceiling have been set for investments in infrastructure generating revenue: a) 50% in Member States eligible for the Cohesion Fund, and b) up to 40% of the total cost in other Objective 1 regions. These rates may be increased by 10% if the assistance is used for financial engineering. Furthermore, the level of E.U. cofinancing for investments in companies has been reduced to 35% in regions covered by Objective 1. This rate may be increased by 10% if the assistance is used for financial engineering.

#### 7. Eligible measures for Objective 1 regions

For the programming period of 2000-2006, as far as the Objective 1 regions concerned, the only reform that has made is the following: With the exception of compensatory allowances for disadvantaged areas, support for early retirement schemes and measures for the development and promotion of forests, which will be supported via the EAGGF-Guarantee section (European Agricultural Guidance and Guarantee Fund, these measures will be financed by the Guidance section of EAGGF in Objective 1 regions.

## **PART C**

### **CONCLUSION AND PROPOSALS**

All the above mentioned reforms reflects the E.U desire to ensure a clearer division of responsibilities and a stronger application of the principle of subsidiarity. Thus, the European Commission supervises compliance with the strategic priorities, but the management of the programmes is more decentralised . In addition, the regulation specifies that the partnership should be broadened to include local and regional governments, economic and social partners and other relevant bodies. In that view, the role of evaluation in the new period of 2000-2006 is reinforced. So, the new regulation stipulates, as the former ones three types of evaluation (ex-ante, mid-term and ex-post), but indicates a huge role in the various responsibilities involved. In particular: a) The ex-ante evaluation will be carried out by the authorities responsible for preparing the plans in the Member States. It will analyse the strengths and weaknesses of the reegion and the sector concerned. It must examine the coherence between the strategy and objectives and the characteristics of the region or area concerned, including demographic trends. It will define the expected impact of the planned priorities, especially in terms of employment, the environment and equal opportunities for men and women, using quantified objectives where possible. b)The mid-term evaluation will be the responsibility of the product managing authority, in cooperation with the Commission. It will examine the initial results of the operations, their consistency with the ex-ante evaluation, the relevance of the targets, as well as the soundness of the financial management and the quality of monitoring and implementation of the programme concerned. More specifically, this evaluation will be carried out by an independent assessor, after which it will be submitted to the relevant monitoring committee and sent to the Commission no later than 31 December 2003. It serves to review the programme at a



half way period, and to aid in the allocation of the performance reserve. c) The ex-post evaluation will be the responsibility of the European Commission, in cooperation with the Member State and the Managing authority concerned. It aims to assess the utilisation of resources, the impact, effectiveness and efficiency of the operations and their consistency with the ex-ante evaluation. It will therefore draw conclusions regarding economic and social cohesion. More specifically, this evaluation, as the above mentioned one, will be carried out by independent assessors and will be finalised before 31 December 2009. The assessments of each CSF, OP and SPD will be carried out by 31 December 2005 in order to prepare for the next programming phase.

The above mentioned indicate that, on one hand the E.U. has its own important role to play, in generating financial transfers to its Member States through its Structural Funds, Cohesion Fund and other Initiatives and Interventions, and in helping also to co-ordinate Regional Policy across the E.U. Member States on the other hand, have a major role to play in planning, financing (through CSFs, EIB etc, and National Sector), implementing and adapting their own distinctive regional policies to the needs of specific geographical areas in order to be more effective. Consequently, we can say that the diversity of Regional Policy in Europe is a strength.

In Greece, the aforementioned E.U. policy will be successful only when the Regional/Local Authorities will be radically reorganised. Reorganisation that presupposes the preponderance of equal technological investment criteria and transparency in regional distribution of the public investment programmes. And this can happen if the Central Public Administration is independent in order to ensure that regional problems will be solved by Regional/Local Authorities that have detailed knowledge of their own areas and of the problems they faced, of course, assisting by National and E.U. Authorities. Hence, this scheme will contribute to implementation of an integrated strategic planning of the technological process that will help to regional development. Thus, we can say that by the implementation of this planning, the role of project management will be reorganised and reinforced, because it will contribute on one hand to the increase of credit worthiness of the entire country and on the other hand to amelioration of the grade of E.U. finances

absorption. Therefore, the expected benefits it will be possible to create a new emulation environment. This environment will encourage the involvement of all partners in solving the problem of the depressed regions. In that way will be created a feedback dynamic process of infrastructure and development.

Generally, to conclude, it is important to mention how crucial is the role of Regional/Local Authorities in the pin-pointing and the formation of the needs of the local Enterprises and citizens. For that purpose, both E.U. and National regional Policy must be focused on its reinforcement and upgrading in order to enable these Authorities to satisfy in a second level the local and regional needs. In my opinion, all these operations based on an “Bottom – up” approach, could be also included in operations undertaken in regions eligible under Objective 1.

**APPENDIX**

**OF**

**TABLES, FIGURES AND MAPS**

(all the relevant tables figures and maps mentioned in the text are included in the printed version of the paper which will mailed to you)

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