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Enlargement and EU regional policy

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John Bachtler; Ruth Downes

Enlargement and EU Regional Policy

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1. Introduction

In March 1999, the EU began the process of adapting its regional policy for the enlargement of the Union. With its Agenda 2000 reforms, the Berlin Council devised a financial framework that would provide pre-accession and enlargement-related support for the new members, but without increasing the overall EU budget. For the first time, the growth in Structural and Cohesion Funds was stopped, and the receipts of the existing EU-15 recipient regions (in most cases) were projected as declining over the 2000-06 period.

The cutbacks were not easy to achieve. Reductions in the spatial coverage of Objective 2 areas were subject to a 'safety net', and de-designated Objective 1 and 2 regions were granted generous transition periods. Nevertheless, by 2006, the spatial coverage of EU regional policy in the EU-15 will have contracted from the 1999 figure of 51 percent to 41.4 percent, the first occasion on which assisted area coverage has actually fallen (Wishlade 2000), and the annual EU budget for Structural Funds in the EU-15 will have fallen from € 29.4 billion in 1999 to € 26.7 billion in 2006.

The next reforms will be rather more challenging. Although the EU-15 have budgeted for € 12.1 billion in 2006 for the new Member States following enlargement, this is merely a temporary allocation of funding to cover structural operations until the end of the funding period. After 2006, the new members will expect to receive shares of Structural and Cohesion Funds that reflect the severity of their economic development problems, while the existing recipients will need either to give up on entitlements or increase the overall budget, or a combination of both. However, there are also more fundamental questions about the rationale and scope of EU regional policy in an enlarged EU: What should be the objectives of EU regional policy? should it address disparities between countries or regions? What type of regional problems should be addressed? What are the most important forms of aid?

The European Commission has launched a debate on these questions, first with the publication of the Second Cohesion Report (Commission of the European Communities (CEC) 2001) and then the Second European Cohesion Forum. Some Member States and interest groups have also begun to express views. Over the next 2-3 years, this discussion will develop further until the EC puts forward its proposals as a basis for negotiation.

The following paper rehearses the main issues. It begins by examining the arguments about enlargement and cohesion with a summary of one of the preparatory studies (Weise et al. 2000) undertaken (by the DIW and EPRC) for the Second Cohesion Report, as well as references to some of the Commission's own research. The paper then outlines some of the options for the future of EU regional policy, describing four possible scenarios originally put forward in a 'Sub Rosa' discussion paper (Bachtler et al. 2001) before concluding with some questions for discussion.

2. EU Enlargement and Cohesion

At the heart of the debate over the challenges of EU enlargement is economic and social cohesion in a wider Union. Cohesion is an important pillar of the European social market economy, it underpins EU action in the field of regional development and it will take on greater political, economic and social significance in an enlarged EU given the relative underdevelopment of the Central and Eastern European (CEE) countries. The importance accorded to cohesion derives from the belief that: "solidarity and mutual support are an equally important basis for progress [as market forces], not only for social reasons but also for optimising overall economic benefits since there is ample evidence of detrimental effects of inequality of growth" (Commission of the European Communities (CEC) 1996). This commitment to territorial and social justice provides the rationale for the EU Structural Funds and the Cohesion Fund as well as the pre-accession instruments, Phare, ISPA and SAPARD.

While there is a clear political commitment to economic and social cohesion at EU and national levels, the architecture of future policies is not clear. Several issues need to be taken into account.

- First, the impact of enlargement on cohesion is still speculative, in particular because of the uncertainty about national and regional growth rates, and the difficulty of measuring and comparing sub-national economic growth reliably across the EU and Central and Eastern European countries (CEECs).
- Second, the size and diversity of an enlarged EU requires a fundamental reappraisal of the rationale and objectives of policies to address economic and social cohesion.
- Third, the scope for EU intervention will be influenced by the willingness of the EU-15 to commit financial resources (the size of the structural policy budget) and their preparedness to forego the aid provided to current recipient regions (the criteria for allocating the budget).
- Fourth, the relationship between EU and national policies in the field of regional development is changing, affecting the scope for current and future Member States to implement their own regional policies. Greater coherence is driven partly by regulation (Structural Fund reform, EC regional aid guidelines) and partly by a convergence in thinking about strategies for economic and social cohesion, but the relationship is still uneasy.

- Lastly, it is becoming increasingly recognised that effective delivery of both EU and national policy intervention in regional development requires significant investment in institutional capacity at national, regional and local levels.

2.1 Disparities and Problems

The starting point for considering the cohesion ‘challenge’ is the extent of national and regional differences. Eurostat data shows a resumption of strong growth across much of CEE. However, despite recent above EU-15 average growth rates in the CEECs, economic convergence remains limited and GDP levels are still below the 1989 figure in many countries. Poland, Slovenia, Hungary and the Czech and Slovak Republics overall show the most positive macro-economic indicators. Considerable labour market changes have occurred associated with the processes of economic restructuring, privatisation and liberalisation. Broad sectoral change includes a sharp fall in industrial and a considerable rise in service sector employment, but differences to the employment structure of the EU members remain substantial. Agricultural employment has generally declined, with important exceptions (e.g. Romania). Unemployment has risen in all countries to varying extents, averaging ten percent across CEE, but remains at levels which are comparable to EU-Member States. Economic transformation has been associated with emerging social problems and widening inequalities within CEE societies. Income levels and standards of living have declined and poverty has spread considerably, with variation between countries. Poverty has a disproportional effect on certain social groups e.g. the elderly, specific ethnic groups, single-parent families, unemployed, low paid employees and women. This is affected by unemployment, discrimination and changes to social protection systems. Rapid industrialisation, inefficient raw material extraction, obsolete technology and a lack of environmental control has left a legacy of environmental degradation. While reduction in pollution levels is evident, the costs of clean-up are still extremely high.

The extent of sub-national disparities (in GDP and unemployment) in the CEECs is generally less than in some EU-Member States. CEE regions (at NUTS II level) are more sparsely populated than in the EU (except the Nordic countries). GDP per capita in CEE regions is considerably less than the EU average – only Prague and Bratislava lie above this level. The poorest regions are in Bulgaria (ca. 23 percent of the EU average). The poorest EU region (Ipeiros in Greece) is 43 percent of the EU average, comparable with Hungary. Regional unemployment is relatively low in CEECs in comparison to the EU, with considerable sub-national variation (but again less than in EU-Member States). The lowest rate (1998) was in Prague (3.1 percent) and highest in eastern Slovakia (21.6 percent). Agriculture dominates regional employment structures in some CEECs (e.g. Romania and Poland) to a much greater extent than in the EU. Capital cities have the highest levels of service sector employment and, overall, EU regions tend to have more diversified employment structures.

The types of regional problems in CEE reflect both the unique process of transition, as well as structural changes already undertaken in Western countries but delayed in CEECs by geo-political factors. As noted in the earlier discussion paper, there are four overall groupings.

- *Capital cities/major urban agglomerations* which demonstrate the most favourable economic indicators, benefiting from e.g. high investment, skilled labour force and training facilities, more developed infrastructure, business services and access to decision-makers. Some capitals (e.g. Budapest, Prague, Tallinn, Bratislava) are highly dominant in the national economic structure.

- *Western border regions* which benefit from proximity to the EU, encouraging investment, trade, tourism and cross-border retail and educational/technological initiatives. At the EU-CEECs border, per capita GDP and productivity (excluding commuters) is lower in all the CEECs border regions than their EU neighbours (except for the case of Bratislava and neighbouring Austrian regions of Niederösterreich and Burgenland). Total unemployment is higher in German border regions than neighbouring Polish and Czech ones but the situation is reversed on the Austrian, Greek and Italian border with CEE.
- *Peripheral eastern and rural regions* are among the most economically disadvantaged in CEECs. Geographical location, poor infrastructure, low investment, declining agriculture and rural out-migration are all contributory factors. These regions have particularly high rates of unemployment.
- *Old industrial regions*, the drivers of economic activity under socialism, which have been particularly negatively affected by privatisation, enterprise restructuring/closures, subsidy loss and market re-orientation. Problems include unemployment, lack of entrepreneurship and environmental decline. A full process of restructuring still has to be undertaken in some old, mono-structural areas.

As part of the preparatory study (Weise et al. 2000), a cluster analysis was conducted to classify all ca. 260 EU and CEEC regions simultaneously in types of regions according to their employment structure and population density. This led to six clusters: agglomerations, service-dominated, service-biased areas, industry, agriculture-biased, and agriculture dominated. The distribution of the regions among the clusters shows the very poor development of the service sector and the importance of agriculture in the transition countries compared to the EU-15. Industry plays a dominant role for employment only in a minor part of the CEEC regions. This economic structure of the CEEC regions is noteworthy because, in general, regions with above average GDP per head are more likely to be found in the agglomeration or service clusters than in the industry cluster (although some of the industry regions in EU countries, mostly from Germany or Italy, are quite well-off). An agriculture bias is clearly associated with a low per capita GDP. Worse still, with only few exceptions, the CEEC regions were clearly the poorest regions in their respective cluster. While the cluster analysis produced quite homogeneous groups of regions with regard to their overall structural characteristics, there is no uniform socio-economic situation among the regions of a specific cluster. Labour market problems tend to be concentrated on selective regions in the EU as well as in the CEECs. They are not obviously related to the GDP level of a region and national characteristics seem to play a dominant role.

2.2 Impact of Enlargement

The enlargement of the EU will not be a spatially homogenous process, but will have differing impacts both on the regions of the current EU-15 and those of the CEECs. Looking at the effects of enlargement, during the 1990s, the CEECs managed to redirect their exports away from the former CMEA members towards the European Union. The trade volume has increased significantly and the EU has become the most important trading partner of the CEECs. From the point of view of the EU, the CEECs are much less important partners. Geographical proximity seems to play a key role in determining bilateral trade flows. The main trading partners being Germany and Austria, as well as Finland, Italy and Greece on the EU side and Poland, the Czech Republic and Hungary on the CEE side. Regional trade data available indicate that this pattern also applies at the regional level. However, eastern German, as well as western Polish regions do not account for significant shares in total trade of their respective countries.

A further trend is that CEECs have been able to change the commodity structure of their exports from inter-industry to intra-industry trade, i.e. their export structure is now more similar to that of the EU as in the early 1990s. However, it is important to note that bilateral exchange is overwhelmingly trade in vertically differentiated products with the CEECs being exporters of product variations with lower unit values. Only Hungary seems to be an exception. There is no indication that the CEECs constitute a severe competition for the EU cohesion countries or other EU members.

As in the case of trade, recent years have seen a marked increase in foreign direct investment (FDI) flows from the EU to Candidate Countries, dominated by the main trading countries but also by France and the Netherlands. While FDI flows are important for the receiving countries (most notably Hungary, the Czech Republic and Poland), Austria is the only EU member where CEE plays a prominent role as a destination for FDI flows. Other than for trade, there are practically no FDI flows from the CEECs to the EU. The choice of destination seems to be influenced, in general, by proximity and political stability. The motives for investment are not entirely clear. While surveys show a slightly above average importance of wage costs advantages for FDI in CEE (compared with overall FDI outflows from the EU), there are also indications that this is not the dominating influence factor. Market access and first-mover advantages also play a decisive role.

Migration is often cited as the most important post-enlargement effect with automatically associated negative consequences for EU members. High estimates of future migration are introduced in the debate apparently based on crude measures and without econometric and economic-modelling background. More diligent analyses do not expect a massive influx of migrants after enlargement and see only minor – and by no means necessarily negative – effects on wage and employment in the EU. Migration flows will be directed mostly into Germany and Austria as these countries are already home to the largest shares of CEEC citizens in the EU. Inside these countries, they will be directed to centres of economic activity, not necessarily to the border regions. Actual migration flows depend on the income gap, the labour market situation in the destination country and the stock of migrants. The share of citizens of the country of origin that are already living abroad determines, on the one hand, the destination choice of new migrants. More importantly, on the other hand, it dampens the potential for further emigration from a specific country because the propensity to migrate is not distributed evenly among the population. It is, therefore, to be expected that migration flows will rise after enlargement (there are only comparatively few CEECs citizens already living in the EU). However, the inflow will not be as excessively high as sometimes expected and it will slow down over time. The actual labour market effects do not just depend on the number of migrants but also on their qualification. Highly qualified migrants can have positive effects for low qualified domestic workers.

In summary, enlargement has often been discussed in a negative language of ‘threats of competition’, an ‘influx of migrants’ and ‘cost burdens’. The research summarised above (Weise et al. 2000) shows that it is important to keep these issues in perspective. The EU-15 currently have a € 25 billion trade surplus with CEECs, particularly in investment goods, and there is no indication that the CEECs constitute severe trade competition for the EU cohesion countries or other EU members. Similarly, the CEE economies host a stock of € 27 billion of foreign direct investment from EU countries, only a small part of which appears to be driven by low-wage costs in CEE. The major part of FDI is motivated by market access; investment in CEE is created rather than diverted from elsewhere in the EU. Lastly, high estimates of future migration appear to be based on crude calculations. More detailed analyses do not suggest massive out-migration

from CEE countries after enlargement and foresee only minor, and by no means necessarily negative, effects on wage and employment in the EU.

The latest EU research on the impact of enlargement (Commission of the European Communities (CEC) 2001) concurs with this overall assessment, concluding that, like other studies:

“... enlargement is a positive-sum game for the parties involved. The candidate countries should benefit greatly from enlargement thanks to a more efficient allocation of resources, greater investment and higher productivity growth... Growth is also expected to increase in EU-15 due to enlargement ... with those countries with relatively strong ties to the transition economies, such as Germany and Austria, benefiting the most”.

Nevertheless, as noted above, the critical factor for a positive enlargement scenario is the preparedness for structural change. Along with the economic, industrial and social policies of the EU and national governments, enlargement presents formidable challenges for EU structural policies. Widening the EU to include 27 Member States would increase the territory of the Union by 34 percent and its population by 28 percent, whereas the average GDP per capita would decline by approx. 15 percent. Accession of the ten Central and Eastern European countries would radically alter the EU maps of regional problems and disparities. Agriculture dominates regional employment structures in the transition countries to a much greater extent than in the EU-15, while the service sector remains relatively under-developed, especially outside the capital cities. The agriculture bias is associated with low per capita GDP; the poorest CEE regions (Bulgaria, Latvia, Lithuania and parts of Poland and Romania) have a GDP per capita of below 30 percent of the (current) EU average.

EU enlargement will, therefore, require a reorientation of the Structural and Cohesion Funds. Under the current budgetary parameters, for whatever objectives and criteria are used for allocating funding, there would need to be a substantial shift away from current recipients to the transition countries. However, there is also scope for new thinking about the way in which the EU and Member States work together on regional policy.

3. Enlargement and Regional Policy

The EU Treaty commitment to economic and social cohesion is an important pillar of the European social market economy and it underpins intervention through EU structural policies. However, the economic development logic of EU action is undermined by a perception of the Structural and Cohesion Funds as a ‘side payment’ to enable agreement in other policy areas and by the political bargaining associated with the allocation of funding. EU enlargement presents an opportunity to improve the allocational logic of EU regional policy and maximise its impact on economic and social cohesion.

The principles of the 1988 reform of the Structural Funds – concentration, multi-annual programming, partnership and additionality – have proved to be a good basis for regional development policy. However, their impact outside the Cohesion Countries has been obscured by the dissipation of aid over small areas, the bureaucracy of programming, the wide range of interventions and the short programming periods (in Objective 2 areas). For EU structural policy in CEE, it will be important to develop medium-to-long-term priorities and consistent objectives for policy measures. In particular, there is a need to concentrate on a limited number of key priorities. Arguably, assistance should be concentrated geographically (growth poles) and export-oriented to promote the ‘motors’ of development.

The major lesson of the past 15 years of Structural and Cohesion Fund implementation in the EU is the critical role of institutional capacity. There are major differences in the mode of implementation among Member States, but the common experience is that there is a long 'learning curve' relating to all aspects of programming. Given the historical institutional legacy in many CEECs, the 'vacuum' of regional self-government and the slow process of territorial administrative reform, it will be important to recognise, for the time being, the primary role of national governments in the implementation of the Funds and to respect the institutional differences between countries.

With respect to the possible options, these theoretically range from an EU-wide inter-regional fiscal transfer system, at one extreme, to a complete 're-nationalisation' of regional policy, without a role for the EU, at the other end of the spectrum. Between these extremes are several plausible scenarios for future funding allocations, as presented in Bachtler et al. (2001).

3.1 Policy Options: Scenario 1 – Current Policy Approach

The first scenario is that the existing approach to EU structural and cohesion policy is retained and extended eastwards. Funding would be allocated to eligible areas according to EU criteria for delivery through regional programmes. As now, the Commission would retain responsibility for allocating finance, approving programmes and overseeing delivery while the Member States would have responsibility for programme implementation.

According to Eurostat data, all of the CEECs would be classified as Objective 1, except for Slovenia and Prague, Bratislava and Budapest. Many current Objective 1 regions would lose eligibility except for Sachsen-Anhalt and some other districts of eastern Germany, significant parts of Greece and Portugal and some areas in Spain. However, the CEECs are unlikely to be able to utilise all the 'potential' Objective 1 funding for a number of reasons: (a) only some of the Candidate Countries will be EU members by 2007; (b) potential allocations could exceed the 'absorption limit' of four percent of national GDP in CEECs; and (c) there are likely to be problems co-financing programmes from national budgets in some countries. Current Member States would continue to receive a share of the Funds, at least through Objective 1 transition provisions lasting for part of the next funding period, but possibly also for high unemployment and social exclusion among current Objective 2 areas.

This option preserves the scope for achieving political cohesion since most (all?) Member States would receive some Structural Funding, and net payers are kept on board. The use of established methodologies and indicators (however imperfect) limits controversy. The established implementation systems, on which capacity-building in CEECs has hitherto been based, facilitates policy continuity.

The disadvantage is that this would be more of a political than an economic solution. There remains the difficulty of obtaining usable indicators and data to support the approach to area designation and allocating funding, exacerbated by the fact that existing measures of disparity are unsuited to CEEC conditions. It would maintain and potentially enhance the bureaucracy of Structural Fund implementation with additional regional programmes needing to be negotiated, managed, delivered, monitored, evaluated and controlled. A major injection of funding into the CEECs entails problems of monitoring and control, especially at regional levels. The CEECs may lack the requisite institutional capacity at sub-national levels.

3.2 Policy Options: Scenario 2 – Differentiated Policy Approach (Variable Geometry)

Under a second scenario, the EU would take a differentiated policy approach to CEECs and EU-15. For the CEECs, it could take a ‘cohesion policy’ (or transition policy?) approach, providing policy support to each of the applicant countries as a whole, regardless of the levels of prosperity of individual regions. For the EU-15, the current approach to ‘structural policy’ could be maintained. In the CEECs, funding would be allocated to new Member States for delivery through national development programmes; in the EU-15, funding would be allocated to eligible regions for delivery through regional programmes. As above, the Commission would have responsibility for allocating finance, approving programmes and overseeing delivery, while the Member States have responsibility for programme implementation.

In this scenario, the CEECs would be designated in their entirety. EU-15 eligible regions would be designated according to Objective 1 and 2 criteria. The implications of this are the same as for Scenario 1.

On the positive side, this approach has a measure of economic development logic – countries such as Slovakia, Czech Republic and Hungary need to have their capitals as part of the eligible area as ‘drivers’ of economic development (cf. experience of Portugal and Ireland). This scenario would allow funding allocations to the CEECs to be determined according to different criteria from those used hitherto, and problems of inadequate designation indicators and data in making international comparisons between CEE and EU regions are avoided. In addition, CEECs can take a national approach to the design and delivery of policy to suit national conditions. Again, most EU-15 Member States would get some Structural Funding, and the net payers are kept on board.

However, this scenario remains largely a political, rather than an economic solution. It entails a reversal of the recent trend away from supporting poor countries in favour of poor regions (although this may be justified). Crucially, it would involve differential treatment of Member States (why not treat Portugal and Greece in the same way?) which would be politically unpalatable to CEECs. The approach does not guarantee that CEECs use resources for less-favoured regions (but does this matter in the short term?) and could increase internal regional disparities

3.3 Policy Options: Scenario 3 – Concentrated Policy Approach

A more radical scenario would be a reform of structural and cohesion policy so that the Community only intervenes if cohesion “cannot be sufficiently achieved by the Member States” and can be “better achieved by the Community” (Article 5). Under such a policy option, the EU would only intervene where Member State per capita GDP is below 90 percent of the EU average (for example). In other words, the EU would provide support for the poorest Member States and other fields where there is a clear Community role eg. inter-regional, cross-border and transnational co-operation as well as innovative actions etc. According to current Eurostat figures, under this scenario the EU would only intervene in the CEECs, Greece and Portugal.

This approach would clearly respect the principle of subsidiarity. Structural policy would become a Community policy with an economic rationale for intervention, focusing on convergence among Member States. It would avoid the so-called circular flow of income from net payers to the Commission and back again and would overcome problems of inadequate designation indicators and data in making international comparisons between CEE and EU regions. The approach would allow recipient countries to take a

national approach to the design and delivery of policy to suit national conditions, and the implementation of policy would become more manageable for the Commission.

The potential ‘downside’ is that net payers would not be recipients of EU funding, potentially lessening their financial commitment to the EU and to structural policy in particular. The Commission would not have a ‘place at the table’ in all countries, and the profile of the EU could thereby be potentially diminished. Pressure for spending in areas where the current membership could benefit more may be increased (aspects of agricultural policy, R&D policy) as may pressure for relaxation of the regulatory environment, especially in the area of national regional aid.

3.4 Policy Options: Scenario 4 – ‘Horizontal’ Policy Approach

More radical still might be a ‘horizontal’ approach, whereby greater coherence to regional development might be achieved. This would involve promoting the co-ordination of EU, national and sub-national actions within a single regional development policy framework at Member State level. Under this approach, the EU would allocate funding to Member States according to GDP per capita and population (all Member States would receive minimum funding as with Objective 3). Each Member State would have a ‘national regional development strategy’ combining all relevant regional development actions. The EU role would be to check conformity with EU objectives, competition policy, environmental policy etc. and promote good practice, pilot projects, innovative actions, inter-regional co-operation, evaluation etc. The Member States would be responsible for policy design and delivery.

Under this scenario, there would be no area designation at EU level. Member States would designate one set of areas only. Funding would be allocated to all Member States on the basis of GDP per capita and population, ie. the poorest countries with lowest GDP per head would receive the maximum per capita allocation.

This option respects the principle of subsidiarity and promotes coherence – a single map of eligible areas, and coherence between all economic development actions within Member States. It would retain a universal system of regional development, and the net payers would retain vested interest (albeit small in some cases).

However, there would be the danger of inadequate consideration of EU regional development objectives and potentially a partial return to the pre-1988 situation. Again, there would probably be pressure to relax the constraints of State aid controls.

4. Issues for Discussion

The preceding paper has argued that enlargement will be a positive-sum game for both the EU-15 and CEECs. However, the gains will vary between countries and, even more, among regions. There are wide regional disparities within and between the current and future Member States and severe economic, social and environmental problems to be overcome. While national macro-economic, industrial and regional policies will have a primary responsibility in addressing these problems, the EU has an important role to play in reducing the spatial differentiation of gains and losses associated with European integration.

What type of regional policy is appropriate in an enlarged EU?

The first question is how EU regional policy can be adapted to meet the needs of an enlarged EU. The initial responses to the Second Cohesion Report indicates the difficulty facing the EU. It is evident, for example, that the CEECs want to be treated on the

same basis as the current Cohesion countries - avoiding discriminatory treatment, either positively or negatively. There are obvious concerns that a regional policy focused solely on the poorest countries would be seen as a 'welfare policy' rather than a policy of development and would, as a result, lead over time to reduced solidarity contributions from the richer Member States.

A second set of concerns has been expressed by the current Cohesion Countries whose relative position will change in an enlarged EU. In particular, several of the current eligible regions will no longer qualify for Objective 1 support when the average EU level is reduced by the accession of poorer countries from Central and Eastern Europe. Arguing that the absolute severity of problems will not have changed, countries such as Spain are seeking assurances that their current receipts can be maintained by an increase in the EU structural operations budget.

A further viewpoint is that of the so-called 'net payers' who want to limit additional budgetary contributions. Given that the richer Member States will cease to qualify for significant EU Structural Fund support, their net payment position will worsen following enlargement. This concern has been voiced by Germany – the largest contributor to the EU budget – which has suggested that richer countries should have reduced budgetary contributions as a price for not receiving any Structural Funds. Some form of 'trade off' between EU regional policy and EU competition policy has also been mooted, whereby countries receiving no Structural Funds would have greater flexibility under EU State aid rules to provide support under national regional aid policies.

Lastly, the European Commission is trying to structure the debate in accordance with its interpretation of the future of EU regional policy. It has, for example, rejected the option of any kind of 'renationalisation' of EU regional policy and seems to be avoiding any fundamental review of the objectives of policy. Instead it is encouraging consideration of an EU regional policy that embraces the needs of the CEECs, the current Cohesion Countries and other less-developed regions, as well as a continued EU role in addressing the problems of old-industrial regions, rural regions and sparsely populated areas in the EU-15, combined with a new focus on urban centres.

In this context, to what extent is incremental change or radical reform likely to be feasible or desirable? Is a fundamental reconsideration of the objectives of EU regional policy needed or should the current and future Member States opt for adaptation within the existing financial and institutional framework?

One of the key factors underlying decisions on EU regional policy is the allocation of finance. Eligible regions, especially in the richer countries, have a 'subsidy mentality' that accords an importance to eligibility for EU aid which is out of all proportion to the scale or impact of the funding. Similarly, the net national payments or receipts are increasingly regarded by national politicians as a measure of the 'success' of the outcome of EU budgetary negotiations. To what extent is this inevitable, or is it possible to change political and popular perceptions of the budgetary process in the interests of a more 'efficient' allocation of Structural and Cohesion Funds?

How can the implementation of EU regional policy be improved?

Closely related to the future objectives of EU regional policy are the mechanisms through which the objectives are fulfilled. As is well known, EU regional policy has become a complex and bureaucratic instrument, both in its implementation in the Member States through the Structural and Cohesion Funds, and in the CEECs through the pre-accession instruments.

The complexity of EU regional policy has several aspects. First, the regional policy of the EU has grown up in an ad hoc manner, with three different Structural Funds, plus the Cohesion Fund, each with its own regulatory and implementation framework administered by different directorates-general. Although focused principally on the least-developed parts of the EU, the scope of regional policy has been spreading across virtually every category of regional and local problem in the Community. The reform of the Funds in 1988 may have brought some co-ordination and alignment in the regulatory regimes, but there are still tensions between the funding instruments, a tension which increases further in the relationship between EU structural and agricultural policies. To a significant extent, the institutional division between the economic, employment and agricultural DGs in Brussels is mirrored at Member State level; proposals for amalgamation or integration of the Funds have not been able to overcome the resistance to change established institutional structures and interests.

Second, the 'policy coverage' of EU regional policy has widened inexorably over the past 15 years. In the mid-1980s, the Funds were used mainly either to co-finance national regional (investment or employment) aid schemes or to fund physical infrastructure projects or programmes. Since then, the targets of assistance have progressively broadened to encompass both 'hard' and 'soft' measures in the fields of economic infrastructure, human resources, tourism and R&D. Despite the recent moves to promote 'financial engineering', there is still a heavy reliance on grant funding. So-called 'horizontal' policy objectives have been overlaid on all programmes – better jobs, social inclusion, sustainable development, equal opportunities and the knowledge economy – to the extent that the term 'policy overload' has been used with increasing frequency.

Third, the implementation of the Funds is highly bureaucratic. On the one hand, the Council, the Parliament and Court of Auditors have required ever more checks on the effectiveness of policies, and the financial control and auditing of expenditure; on the other hand, those implementing the programmes have found it increasingly difficult to manage the Funds efficiently. The principles of programming and partnership have many virtues, but they are labour intensive to operate well, and the simplification of Agenda 2000 is proving to be harder to achieve than expected.

With a further reform of the Funds, especially one that would need to take account of the needs of the CEECs and the limitations of the Commission services, to what extent are the current policy instruments and implementation mechanisms of EU regional policy appropriate for an enlarged EU? How can the design and delivery of the Structural Funds be adapted to meet future needs more effectively?

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