EU ENLARGEMENT AND THE REFORM OF THE STRUCTURAL FUNDS: THE IMPLICATIONS FOR SCOTLAND

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The co-directors are Professor Brian Ashcroft of the University of Strathclyde and Professor David Bell of the University of Stirling.
1. Preface

This paper has been prepared as a contribution to the debate about the forthcoming reform of European Structural Funds and the implications for Scotland. It aims to improve understanding of how the reform debate is evolving at European level, to assess the likely effects of Scotland losing substantial amounts of European funding after 2006, and to encourage discussion of how Scotland should engage in the international debate.

We are grateful to the Scottish Economic Policy Network for the research grant which made the preparation of this paper possible. We are also grateful to economic development practitioners across Scotland who participated in the interview survey carried out as part of the research and to Lorna Gregson-MacLeod, Carolyn Sawers, Caroline Lindsay and Nigel Thomas for verifying the programme expenditure figures. In addition, we would like to thank Professor Douglas Yuill and Philip Raines for helpful comments on an earlier draft of this paper.

The debate about the reform of the Structural Funds is still in its early stages, and there will be different views across Scotland about the priorities and strategies for engaging in the debate. The authors would welcome comments on the paper, and these can be sent to john.bachtler@strath.ac.uk
2. Introduction

On 24-25 October 2002, the European Council meeting in Brussels agreed1 that ten Candidate Countries – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia – will be ready to join the European Union (EU) from the start of 2004. It is intended that accession negotiations should be completed in time for the Accession Treaty to be signed in Athens in April 2003 with the prospect of the first group of new members joining on 1 May 2004. The Council also expressed its support for Bulgaria and Romania to achieve the objective of EU membership in 2007.

Enlargement will affect all aspects of the European Union, notably in the institutional sphere, with new governance and decision-making procedures, and in terms of budgetary and financial issues. The two main areas of EU expenditure – the Common Agricultural Policy and structural operations – will need to be reformed to cope with the new challenges and demands of an EU of 25 Member States, and possibly an EU of 27.

In the field of regional policy (EU Structural and Cohesion Funds), a debate on the future financing of the European Union has begun to consider how the objectives of political and economic cohesion can be met in an enlarged EU during the next financing period, 2007-2013. It is already clear that enlargement of the European Union will lead to the most fundamental reform of EU regional policy since 1988.2

The reform of the Structural Funds is of major importance for Scotland. For more than 25 years, Scotland has relied heavily on EU regional policy, which has significant influence on certain policy processes and key initiatives. Indeed, some organisations depend on Structural Funds for their viability. Partial or total loss of the Funds would change the economic development landscape in financial, policy and institutional terms. It is important that consideration of the post-2006 policy environment should begin now, in time to influence the debate and to examine how regional development policy could and should evolve after 2006. For Scotland, there are several questions in this debate: what are the implications of different reform scenarios for EU regional support in Scotland? How would loss of Structural Funds affect regional and local development in Scotland? How should Scotland approach and influence the reform debate?

The aim of this paper is to examine the implications of the reform of the Structural Funds for regional development in Scotland. The paper comprises four main elements.

First, the paper reviews the background to Structural Funds in Scotland, tracing the evolution of EU regional policy since 1975 and the EU-funded regional development programmes implemented in Scotland (Section 2). It also estimates the scale of financial transfers received in different parts of the country and the possible impact of this funding (Section 3).

Second, the paper examines the forthcoming reform of the Structural Funds. It outlines the key issues and the timetable of the reform debate (Section 4) and considers the different perspectives of the various Member States, particularly with respect to the budget and management of EU regional policy (Section 5). On this basis, the paper summarises the main scenarios and options for the future of European Structural Funds (Section 6).

Third, the paper discusses the reform of the Structural Funds from a Scottish perspective. On the basis of an interview survey covering a wide range of economic development organisations, the paper assesses the levels of awareness about the reform debate and the implications of losing Structural Funds (Section 7). It also examines the advantages and drawbacks for Scotland of the main scenarios being discussed at European level, and it identifies the key questions that arise (Section 9).

Lastly, the final section draws together the main points to arise from the paper and considers the issues that need to be addressed by policy-makers (Section 8).
3. A brief history of structural funds in Scotland

The history of the Structural Funds in Scotland is long and complicated. Over the past 25 years, EU regional policy has evolved from a relatively small-scale funding instrument co-financing national projects to a system of major financial transfers, operating as a significant EU policy in its own right. The following section outlines the evolution of the Structural Funds and their role in Scotland.

3.1 Project funding from the ERDF

The European Community’s involvement in regional policy began effectively in 1975 with the creation of the European Regional Development Fund (ERDF) as a specific measure to redress the main regional imbalances in the Community. The European Social Fund (ESF) and European Agricultural Guidance and Guarantee Fund: Guidance Section (EAGGF) had already been established by the Treaty of Rome in 1957, but the instruments were small-scale and there was no clear strategy for regional development.

In the early years, the ERDF allocated grants entirely on a quota basis to Member States to support industrial investment and local infrastructure projects. The ERDF budget averaged 430 million EUA per year between 1975 and 1977, representing a share of about five percent of the Community budget. The regions eligible for ERDF assistance were limited to those areas designated by Member States under their own systems of regional aid. In the UK, which had a quota allocation of c.28 percent of the Community total, virtually all the assistance was used to co-finance projects funded by the British regional policy measures, Regional Development Grant and Regional Selective Assistance, in the Special Development Areas and Development Areas of the time.

In 1978, the first step towards the Community defining its own regional policy measures was taken with the creation of a ‘non-quota’ section of the ERDF. Limited to five percent of total resources, this section could finance specific Community regional development schemes determined by the European Commission. This funding was used, from 1980 onwards, to finance the first, special, multi-annual schemes for areas seriously affected by crises in the steel, ship-building and textile industries, the development of certain Mediterranean regions and the development of rural areas with few alternatives to agricultural activities. These schemes pioneered the use of ‘integrated development operations’, for specific regions, and, later, ‘integrated development programmes’.

During the early 1980s, the quota system was increasingly considered to lack the flexibility necessary for responding to changing regional problems. A reform of the ERDF in 1984 introduced a system of ranges for the allocation of resources, with upper and lower limits for the funding that each Member State could receive, based on the severity of its regional problems. By this time, the budget for the ERDF had progressively increased to 2,290 million ECU (7.5 percent of the Community budget), a nine-fold increase compared to 1975. Within this system, in 1985, the UK range was from 21.4 percent to 28.6 percent of total ERDF assistance, bringing the UK some 600 million ECU.

Although most of the funding continued to be used to finance industrial investment and infrastructure projects, the 1984 reform made provision for ‘mainstream’ ERDF to be used for financing programmes of regional development support. Building on the experience of the ‘non-quota’ schemes of multi-annual assistance, the ERDF created a combination of ‘Community programmes’ and ‘National Programmes of Community Interest’ (NPCI).

- The ‘Community programmes’, initiated by the European Commission, were the forerunners of the present-day Community Initiatives. They began, in 1986, with the STAR and VALOREN programmes for telecommunication services and energy development respectively in the less-favoured regions of the Community, and were progressively supplemented by RENAVAL (conversion of shipyards) and RESIDER (restructuring of steel areas) in 1988.

- The NPCIs, which were initiated by the Member States (and approved by the Commission), were used to fund national regional aid schemes or regeneration programmes for specific problem regions. They encompassed and superseded the integrated development operations and programmes formerly funded under the non-quota section of the ERDF, most notably the Integrated Mediterranean Programmes which covered the whole of Greece, the Italian Mezzogiorno and southern France.
From the start of Community regional policy, Scotland was a major beneficiary of Structural Funds. During the first ten years of the ERDF (1975-84), Scotland was the third highest recipient of Community aid (after Campania and Sicilia), receiving 6.4 percent of all Community assistance for ERDF support measures, worth 744 million ECU. About two-thirds of this support was provided for infrastructure projects, such as road, ferry and electricity supply links in the Highlands and Islands area, the remaining one-third being used for investment in industry through regional and industrial aid schemes – such as a grant of 17 million ECU to Semiconductor Ltd at Greenock. Strathclyde was one of the first areas to be supported by the specific Community measures for steel and shipbuilding (from 1980 onwards), and parts of Tayside were included in similar Community support for restructuring in textile areas introduced in 1984. During the early 1980s, the Western Isles were also beneficiaries of the first generation of ‘integrated development programmes’.

Following the 1984 reform of the ERDF, Scotland was again an early beneficiary of the new types of support. Among the first seven National Programmes of Community Interest to be approved in 1986 were NPCIs for Glasgow (receiving the largest single allocation of funding – 92.3 million ECU) and Tayside, followed by the NPCI for West Lothian in 1987 (128.1 million ECU) and the Strathclyde Integrated Development Operation (IDO) in 1988, the forerunner of the Objective 2 programmes for Western Scotland. Again, funding was used primarily for upgrading infrastructure such as bridges, roads, railway and sewage treatments works.

### 3.2 A new Community regional policy: the 1988 reform of the Structural Funds

During the mid-1980s, two major developments prompted further reform. First, the accession of Spain and Portugal in 1986 intensified regional disparities across the Community, especially with respect to under-development. Second, the ratification of the Single European Act in 1987 recognised that economic and social cohesion within the Community formed an essential part of the completion of the Single Market. A further factor was the need to improve the efficiency and additonality of policy, in particular to avoid the tendency of Member States to use European funding to reduce national expenditure for projects that would have been undertaken anyway.

In 1988, therefore, the Community agreed a wide-ranging reform of the Structural Funds. This reform involved a shift from individual project support to programme financing, a commitment to greater coordination between the activities of the three Structural Funds (ERDF, ESF, EAGGF) and other financial instruments such as European Investment Bank (EIB) lending, and an increased budget, concentrated on the most disadvantaged regions of the Community. It was agreed to double the Structural Funds from 7.2 billion ECU in 1987 to 14.5 billion ECU in 1993 with support focused on five priority objectives (see box below).

Building on the experience of the Integrated Mediterranean Programmes, assistance was channelled through multi-annual programmes (110 Community Support Frameworks (CSFs) and almost 1,000 Operational Programmes and global grants), defining priorities for the use of Commission funding, and drawn up and implemented by partnerships involving the Commission, national government, local authorities and other actors.

Crucially, the areas eligible for assistance were defined for the first time according to Community-wide criteria - a GDP per capita threshold of 75 percent of the Community average for the Objective 1 areas and (mainly) labour market criteria for Objectives 2 and 5b areas – creating a Community assisted areas map covering 43.5 percent of the Community’s population.

The European Commission was also given the scope to supplement the CSFs with Community Initiatives. In addition to STAR, VALOREN, RESIDER and RENAVAL, the Commission launched 12 new initiatives in 1989: RECHAR (restructuring of coal-mining areas), ENVIREG (environmental problems), STRIDE (research and development), INTERREG (cross-border co-operation), REGIS (development of remote regions), TELEMATIQUE (replacing STAR), PRISMA (calibration, SME support), REGEN (energy networks) LEADER (rural communities), EUROFORM (vocational training and employment) NOW (equal opportunities for women) and HORIZON (improving employment prospects for disabled people).

In Scotland, the 1988 reform led to much of the country becoming eligible for Structural Funds under Objectives 2 and 5b with a total allocation of funding of some £658 million. EU Funding was allocated under Community Support Frameworks drawn up for:
• Western Scotland (Objective 2), comprising the Strathclyde IDO, and extending programme coverage to the travel-to-work-areas of Ayr and Girvan;

• Eastern Scotland (Objective 2), comprising Operational Programmes for Tayside (including the remaining funding under the Tayside NPCI), Fife and Central Region;

• Objectives 3 and 4, which funded training for the long-term unemployed and young people through sectorally-administered programmes, funding being channelled through local authorities, the Training Agency, voluntary organisations, higher education and industry training boards. (Over half the funding was estimated to be spent on Employment Department programmes such as Employment Training and Enterprise Allowance).

• Highlands and Islands (Objective 5b), with funding disbursed through six regional development programmes and other measures: the NCPI (ERDF - 1988-91); the Scottish Islands Agricultural Development Programme (ADP) (EAGGF - 1989-93); ESF projects 1989; the Rural Enterprise Programme (REP) (EAGGF - 1990-93); an ESF Operational Programme 1992-93; and financial intervention in fisheries structures.

• Dumfries and Galloway (Objective 5b), covering the travel-to-work-areas of Stranraer, Newton Stewart and Stewartry.

3.3 Further expansion: the 1993 revision of the Structural Funds

Within three years of the 1988 reform, the Maastricht Treaty of European Union increased the importance of Community regional policy yet again. Article 2 of the Treaty established economic and social cohesion as one of the ‘pillars of the Community structure’. Commitments to closer economic and political union were accompanied by further increases in spending, raising the projected volume of resources for the Structural Funds to an average of 23.6 billion ECU per year over the 1994-99

Examples of major ERDF projects in Scotland

Upgrades to infrastructure
• Edinburgh Bypass
• Stepps Bypass
• Dundee Inner Ring Road
• rail-line extensions at Airdrie, Cumbernauld and Paisley
• renovation of Glenrothes railway station
• deepening of Fraserburgh harbour
• Dighty Sewer

Tourism and leisure initiatives
• Pitlochry Festival Theatre
• Aonach Mor, Lochaber
• Glasgow Royal Concert Hall
• New Lanark Heritage Centre
• Wallace Monument renovation
• Rob Roy Visitor Centre, Callander
• Time Capsule Leisure Centre, Coatbridge
• Lothian Urban Cycle Route

Vocational training
• North Atlantic Fisheries College, Shetland
• Cambuslang college extension
supplemented with a new Cohesion Fund of 15.2 billion ECU for the poorest EU countries.

The increased funding was agreed as part of a revision of the Structural Fund regulations in 1993. The revision broadened both the spatial coverage of the Funds (to 51.6 percent of the EU population) and the scope of the measures by merging the former Objectives 3 and 4 into a new Objective 3 with a wider remit encompassing the integration of persons excluded from the labour market. A new Objective 4 was established to facilitate the adaptation of employees to industrial change and restructuring. The range of eligible measures was also widened. Various steps were taken to simplify the programming process, including the use of ‘Single Programming Documents’, and to improve accountability by strengthening the monitoring and evaluation obligations.

During the 1994-99 period, the scope of the Funds was again extended with the creation of an Objective 6 for the sparsely populated areas of Finland and Sweden, which joined the EU along with Austria in 1995. At the mid-point of the period, the Objective 2 areas and programmes (which ran for two, three-year phases) were also revised.

In addition, the Community Initiatives were amended. REGIS, LEADER and INTERREG continued on to a second phase, and KONVER (for defence industry areas) and RETEX (for textile industry areas) joined RECHAR and RESIDER in the area of restructuring. The human resources initiatives, such as NOW (opportunities for women), and HORIZON (disabled people) were extended through YOUTHSTART (young people) and ADAPT (industrial change). Several new initiatives were launched, including SME (small business), URBAN (urban policy) and PESCA (fisheries).

In Scotland, seven programmes were approved covering some 85 percent of the population. For the first time, Scotland qualified for Objective 1 support, on the basis of the relative underdevelopment of the Highlands and Islands area with, a funding allocation of c. £244 million. In addition, Scotland qualified again for support under Objectives 2 and 5b, with allocation of funding of some £477 million for six regional programmes. By comparison with previous programmes this period of EU aid was being used for a broader range of intervention:

- Western Scotland (Objective 2) - supporting the priorities of development of the regional business sector, creation of a high quality business infrastructure, development of tourism and the cultural sector, and achieving economic and social cohesion;
- Eastern Scotland (Objective 2) - business and trade development, business environment, image and tourism, locally-based initiatives, and technology and innovation;
- Dumfries and Galloway (Objective 5b) - development of economic activities, people, environment and communities, and communications;
- North and West Grampian (Objective 5b) - business development, improving vocational qualifications and environment and heritage;
- Borders (Objective 5b) - investment in business, investment in people and investment in integrated rural initiatives.

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**1988 Reform of the Structural Funds: priority objectives**

1. promoting the development and structural adjustment of lagging regions
2. converting regions seriously affected by industrial decline
3. combating long-term unemployment
4. facilitating the occupational integration of young people
5. reforming the common agricultural policy by:
   (a) speeding up the adjustment of agricultural structure
   (b) promoting the development of rural areas
• Rural Stirling/Upland Tayside (Objective 5b): with three priorities – business support, tourism development and the environment and local communities.

An Objective 3 programme specifically for Scotland was also created with the decentralisation of management responsibility from the UK Department of Employment to the Scottish Office. Funding supported employment and training schemes across the whole country with the exception of the Highlands and Islands (where it was subsumed within the Objective 1 financial envelope), covering measures to combat long-term unemployment and to facilitate the occupational integration of young people. However, Objective 4 funding to facilitate the retraining of workers in employment to help them adapt to industrial change and new production systems did not become available until after the change of UK government in 1997, since the previous (Conservative) government judged the funding objectives to be ‘anti-competitive’ and a covert form of industrial policy.

3.4 Preparing for enlargement: the 1999 Berlin Council

By the late 1990s, it was becoming clear that the period of uninterrupted increases in spending on Community regional policy was coming to an end. The potential costs of further enlargement of the EU to include countries from Central and Eastern Europe, combined with an unwillingness among the richer EU Member States to fund a larger EU budget (especially in post-unification Germany), created an environment of financial constraint. The ‘Agenda 2000’ debate led to an agreement in 1999 which allocated €195 billion¹³ to Structural Funds in the EU-15 Member States, with annual spending in real terms declining from €29.4 million in 2000 to €26.7 billion in 2006. A further €18 billion was allocated to the Cohesion Fund over the 2000-06 period and €47 billion was set aside for the applicant countries of Central and Eastern Europe.

The spatial coverage of the funds was also reduced for the first time, from 52.1 to 40.2 percent of the EU population. As part of a rationalisation of the complexity of the funds (see box below), the number of priority Objectives was reduced from seven to 3 (including the merger of Objectives 2 and 5b into a new Objective 2), new devolved management structures were introduced and the financial control and monitoring obligations were tightened.

Currently, across the EU-15, there are 210 Structural Fund programmes in operation (114 for Objective 1, 96 for Objective 2). Most of these will run until 2006, the end of the current programming period. The exceptions are those areas, which were not eligible for funding in 2000-06, but were awarded degressive transitional assistance until the end of 2005. When the ten Candidate Countries join the EU (expected in 2004), new programmes will be created for the interim period from the accession date until the end of 2006.

In Scotland, some 85 percent of the country is now covered by Structural Fund eligibility, of which about half are in transitional areas. The Highlands and Islands lost Objective 1 status, and the region now has a transitional Objective 1 programme worth some £189 million. Regions eligible under the previous Objectives 2 and 5b have been consolidated into three new Objective 2 programme areas, with a funding allocation of some £447 million:

### 1993 Revision of the Structural Funds: priority objectives

1. promoting the development and structural adjustment of lagging regions
2. converting regions seriously affected by industrial decline
3. integration of persons excluded from the labour market
4. facilitating adaptation of persons excluded from the labour market
5. reforming the common agricultural policy by:
   (a) speeding up the adjustment of agricultural structure
   (b) promoting the development of rural areas
• East of Scotland. A new programme combines the Eastern Scotland Objective 2 programme area with two former Objective 5b programmes (Rural Stirling & Upland Tayside and North & West Grampian). The programme, worth c. £150m, funds three priority areas: strategic economic development; strategic locations and sectors; and community economic development.

• West of Scotland. The programme, worth c. £254m, focuses on developing the three priorities of: competitiveness and innovative capacity of SMEs; developing the region as a competitive location; and increasing economic and social cohesion.

• South of Scotland. A new programme area combines two former Objective 5b programmes (Borders and Dumfries & Galloway), with an allocation of c. £43m to fund the priorities of: competitive enterprises; competitive locations; and people and communities.

In addition, for the first time, a separate Operational Programme is in operation for Objective 3 activities in Scotland. These include support for: equal opportunities in accessing the labour market and promoting social inclusion; specific groups such as the long-term and older unemployed, ethnic groups, single parents and disabled people; business start-up; lifelong learning and on-line training; and gender mainstreaming.

Summarising the above account, by the end of 2006, Scotland will have benefited from EU Structural Funds for over 30 years. Virtually the entire country (with the exception of parts of the east coast) has been covered by one or other of the regional programmes and the whole of Scotland has been eligible under the European Social Fund and Community Initiatives. Collectively, this assistance has been delivered through 27 programmes over the years, not including assistance under the Community Initiatives. The aim of the next section is to assess what this funding has achieved.

**1999 Reform of the Structural Funds: priority objectives**

1. promoting the development and structural adjustment of lagging regions

2. supporting economic and social conversions of areas facing structural difficulties

3. supporting the adaptation and modernisation of policies and systems of education, training and employment
4. What have the structural funds done for us?

4.1 Financial resources

Scotland has been a major beneficiary of Community regional policy, but establishing the total amount of funding received is problematic. Programme allocations given in ECU or euro change according to the exchange rate used. The values are also up-rated periodically to take account of indexation for GDP growth. Community funding is sometimes presented in terms of ‘commitments’ (made to programmes and projects) or in terms of payments (the expenditure actually incurred – which is not accurately verifiable until after the end of the programme period). Further, the Community support arrives in Scotland through various Funds and other financial instruments, each of which is administered and recorded in a different way at EC and national levels. The most consistent, aggregate data at Scottish level comprises a time series of Structural Fund allocations to Scotland over the period 1975-1999. According to this source, Scotland received £2.2 billion of EU funding (at 1998 prices) on a generally rising curve over the 25-year period. Overall, this represented an average of 20 percent of total UK Structural Fund receipts, but with the Scottish share rising as high as 37 percent in the early part of the period.

A more detailed analysis is provided in Tables 3-7 at the end of this section. These tables are based on a mix of original programme documents, Scottish Office and Scottish Executive papers and European Commission sources and covers the period from 1975 to 2006. They suggest that, over the 31-year period, EU spending in Scotland (at current prices) will be almost £4 billion. Even this figure is incomplete since spending under several, albeit minor, EU programmes has not been included.

Figure 1: European Structural Fund Allocations to Scotland, 1975-1999

Source: Written question from John Swinney MP to Calum MacDonald MP, Ref. 80089, 13 April 1999, House of Commons Hansard Written Answers

Notes: (1) For the period 1975-89 the figures are exclusively ERDF. (2) The years 1990-99 include ERDF and ESF, as well as EAGGF and FIFG in the Objective 1 and 5b programmes. (3) From 1990 to 1993, ESF was the responsibility of UK Secretary of State for Education and Employment. Before 1990, ESF was administered by the European Commission and Scottish figures are not available. (4) The figures have been converted to current prices using HM Treasury deflator tables dated 22 December 1998.
Of the identifiable total in Tables 3-7, some 40 percent is attributable to EU programmes in the West of Scotland (largely equivalent to the area of the former Strathclyde Region). The remainder is divided between the Highlands & Islands, the South of Scotland (Dumfries & Galloway and Borders) and the mix of areas making up the eligible region of Eastern Scotland (Stirling, Tayside, Grampian, Lothian).

In assessing the financial resources deployed for EU programmes, it is necessary also to take account of the 'match funding' that needs to be provided from national sources such as local government, the development agencies or the private sector. Under EU rules, funding by the Structural Funds can provide a maximum 75 percent of the total costs of a project under Objective 1 programmes (as in the Highlands & Islands), whereas programmes funded by other Objectives are limited to an EU contribution of 50 percent of the total cost (as in Western, Southern and Eastern Scotland). Combining the EU aid with national co-funding, it is possible that the total expenditure associated with EU programmes over the 1975-2006 period may amount to around £9-10 billion, equivalent to some £2,000 per head of the Scottish population.

4.2 Impact

The impact of the Structural Funds is notoriously difficult to identify, for several reasons. First, as indicated in the previous section, Community funding is spread over many different programmes. The measures within these programmes range from large infrastructure projects to small-scale community development schemes, training programmes and ‘intangible’ assistance to improve business information or research performance. In some cases, as with a business investment project, the employment impact may be short-term, direct and relatively easy to identify; in other cases, the impact will be indirect and only evident after several years. The programmes have also become more complex over time. The early Structural Fund interventions (during the 1980s and early 1990s) focused heavily on supporting capital and infrastructure activities, whereas in the course of the 1990s a much broader spectrum of activities has been assisted, with greater emphasis on revenue and training activities and more targeting of support on community development.

Second, Community programmes are co-financed with a mix of national and local government funding and private sector investment, and it is difficult to disentangle the separate effect of each funding source. For some projects, there may be as many as seven different funding streams involved.

Third, evaluation research is of limited use. Although Structural Fund programmes are subject to ex ante appraisal and interim and ex post evaluation, the evaluations conducted in the past have not been able to rely on accurate data that would enable them reliably to establish the net impact of programmes. Further, recent research suggests that evaluations have not been able quantitatively to separate the ‘added value’ of Structural Fund spending from expenditure under national policy initiatives.

Notwithstanding these difficulties, it has to be acknowledged that the Structural Fund programmes have made more effort to monitor the physical as well as financial outcomes of their spending than many national policy initiatives. Since the 1988 reform of the Structural Funds, the European Commission has attempted progressively to increase the importance given to monitoring and evaluating EU expenditure. This has not always been straightforward or successful, but Scotland - formerly through the Scottish Office and currently through the Scottish Executive, as well as through the Programme Management Executives - has generally been in the vanguard of trying to improve the impact information available to evaluators. This applies in particular to data for the current 2000-06 period.

As an indicator of the scale of effects of EU expenditure in Scotland, the following table, taken from the Scottish Budget 2003-04, lists some of the outputs and impacts associated with spending under the four regional programmes. In total, it forecasts that the programmes will collectively have a net impact of 83,883 new jobs and 19,098 safeguarded jobs over the seven-year lifetime of the programmes. Additional outcomes are provided for indicators such as new business formation and GDP.

The figures for previous programmes are not available in similar comparable form. Evaluation research has also shown that in these earlier periods there were major inconsistencies in the definition of results, output and impact indicators, as well as in the collection, collation and
interpretation of data, on the part of project beneficiaries and programme implementing authorities. For illustrative purposes only, Table 2 provides an overview of output and impact figures – for new or safeguarded employment – based on data provided in EU programme documents and evaluation reports.

Clearly there are significant numbers of jobs associated with some of the programmes, although the reliability of the individual figures is questionable. According to the table, the gross aggregate employment effects of the regional programmes could be upwards of 270,000 jobs created or safeguarded over the period 1989-2006. It should be noted that employment outcomes are not the sole measure of Structural Fund programme performance. Most programmes have a range of objectives associated with indicators relating to business performance, training, innovation rates, regional and local income, environmental attractiveness, tourism numbers etc.

Although the impact of Structural Funds in aggregate is difficult to identify, there is more evidence of the additionality of the EU programmes at project level. The most recent evaluations of the 1994-99 programmes show relatively high levels of project additionality, although varying in terms of deadweight and displacement across the different priorities. In the case of the Highlands & Islands Objective Programme, where figures for project additionality are recorded, the evaluators estimated that almost two thirds of projects would not have gone ahead without Structural Funds assistance, and the remainder demonstrated ‘partial additionality’ in that they may have gone ahead on a smaller scale or over a longer timescale.16

4.3 Implementation of the programmes

Apart from the quantitative effects of the Structural Funds in Scotland, there are less-tangible outcomes of EU expenditure, associated with the way in which EU-funded programmes are designed and delivered.

As noted in Section 2, since 1988 the Structural Funds regulations have required EU aid to be spent in the context of multi-annual programmes, drawn up and managed in partnership between the European Commission and national governments, together with regional and local authorities, economic and social partners and other “relevant competent bodies”. Regional programmes are meant to take a strategic approach to regional needs, based on thorough analysis and to have

Table 1: Outputs and impacts associated with Structural Fund regional programmes in Scotland, 2000-2006

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Highlands &amp; Islands</th>
<th>Objective 2 West</th>
<th>Objective 2 East</th>
<th>Objective 2 South</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of net jobs created</td>
<td>3,708</td>
<td>60,129</td>
<td>16,871</td>
<td>3,175</td>
</tr>
<tr>
<td>Number of net jobs safeguarded</td>
<td>6,286</td>
<td>n/a</td>
<td>14,892</td>
<td>920</td>
</tr>
<tr>
<td>GDP created/safeguarded</td>
<td>£223m</td>
<td>n/a</td>
<td>n/a</td>
<td>£75m</td>
</tr>
<tr>
<td>Increased sales in assisted business</td>
<td>£393m</td>
<td>£1,885m</td>
<td>£1,096m</td>
<td>£435m</td>
</tr>
<tr>
<td>Number of new businesses surviving after 3 years</td>
<td>380</td>
<td>7306</td>
<td>n/a</td>
<td>2,341</td>
</tr>
<tr>
<td>Number of existing businesses assisted</td>
<td>2,446</td>
<td>9500</td>
<td>9,247</td>
<td>2,341</td>
</tr>
<tr>
<td>Gross number of assisted organisations introducing active equal opportunity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>policies</td>
<td>n/a</td>
<td>2,350</td>
<td>1,670</td>
<td>n/a</td>
</tr>
<tr>
<td>Number of SMEs undertaking environmental management</td>
<td>145</td>
<td>1,700</td>
<td>1,352</td>
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Table 2: Employment outputs of Structural Fund regional programmes in Scotland 1989-1999

<table>
<thead>
<tr>
<th>Region/programme</th>
<th>Outputs/results</th>
<th>Indicator</th>
<th>Forecast</th>
<th>Actual</th>
<th>Sources</th>
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<tr>
<td>South of Scotland</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>1989-93 Galloway Objective Obj.5b CSF</td>
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<td>2000</td>
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<tr>
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<td>New jobs</td>
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<td>1845</td>
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<td>New jobs</td>
<td>390</td>
<td>7030</td>
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<td>2000-06 South of Scotland Obj.2 SPD</td>
<td>New jobs</td>
<td>5031</td>
<td>1845</td>
<td>5</td>
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<td>East of Scotland</td>
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<td></td>
<td></td>
<td></td>
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</tr>
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<td>1989-93 Eastern Scotland Obj.2 CSF</td>
<td>New jobs</td>
<td>12000</td>
<td>17000</td>
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<td>1994-96 Eastern Scotland Obj.2 SPD</td>
<td>New jobs</td>
<td>2420</td>
<td>51000</td>
<td>6</td>
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<td>New jobs</td>
<td>4800</td>
<td>9776</td>
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<tr>
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<td>New jobs</td>
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<td>6201</td>
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<td>New or s/g jobs</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>1988-92 Strathclyde IDO</td>
<td>New or s/g jobs</td>
<td>38942</td>
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<tr>
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<td>10000</td>
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<td>Gross jobs</td>
<td>85531</td>
<td>85531</td>
<td>17</td>
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</table>

quantified targets. Especially under the current generation of programmes, EU spending has to promote equality between men and women and sustainable development through the integration of environmental protection and improvement requirements.

The implementation of these regulations in Scotland has been undertaken using a distinctive ‘Scottish model’ of programme administration based on broadly based partnerships. The model originates in the approach taken to managing the Strathclyde Integrated Development Operation in the former Strathclyde Region and involving the creation of the first ‘Programme Management Executive’ (PME) in 1989. The PMEs, which are now used for the five main Structural Fund programmes in Scotland, undertake all programme management functions (with the exception of payments) under authority delegated from the Scottish Executive. Crucially, they not only undertake administrative functions associated with the processing of EU expenditure but seek to ‘add value’ to the process by actively engaging with partner organisations within the programme area to encourage and facilitate the submission of ‘good quality’ projects in line with the strategic objectives of the programme.

Partners – including local authorities, LECs, the higher and further education sector, the voluntary sector, trades unions and employers’ organisations – have a central role to play in the administration of the programme through their participation in Advisory Groups. These groups comprise representatives of partner bodies with expertise in particular development themes. They are responsible for appraising project applications and recommending to the Programme Management Committee whether the projects should be approved for assistance.

This approach differs markedly from the historical approach to managing Structural Funds in other parts of the UK and from the approach taken by many other EU Member States. It is argued that the Scottish model ensures a more open, transparent and participative (but also more bureaucratic) process of project selection and gives the programmes more strategic and operational leverage in meeting EU priorities than is the case in other systems.

A key question is the ‘added value’ provided by this approach to managing the Structural Funds. Recent evaluation studies, academic research and interviews carried out for this paper suggest that EU funding is associated with several perceived benefits.

- **Strategic focus** – The requirement to work in partnership has facilitated more effective collaboration at strategic level and operationally in the planning and delivery of projects. Partners have been encouraged to ‘look at the broader picture’ and to take account of strategic objectives in developing regional plans and projects.

- **Efficiency** – The Funds have helped to improve the efficiency of economic development by avoiding duplication – organisations proposing similar projects have been encouraged to work together. Applicants have been forced to plan projects better, for example by costing project components accurately, and to make a better assessment of their achievements and failures. The pressure to spend has also encouraged faster and more structured completion of projects.

- **Leverage** – EU funding has ‘unlocked’ access to other funding streams from national or local sources, and given a higher priority to certain types of economic development than would otherwise be the case.

- **Targeting** – Structural Funds are targeted, geographically, sectorally and on specific groups, which is not always the case with funding from national sources.

- **Innovation** – EU funding has allowed organisations to try new approaches to economic development - such as new marketing and training schemes, certain tourism projects and community economic development – where Structural Funds were at the forefront. Community Initiatives such as LEADER are particularly effective in this regard. It is argued that national funding is often used for ‘proven practice’, avoiding initiatives that are too risky or innovative. Structural Funds have had a demonstration effect, leading to the mainstreaming of new practice.

Against these positive claims, there are also perceived drawbacks associated with the Funds.
Complexity – The EU programmes contain too many policy objectives and criteria that need to be satisfied. Successive reforms of the Funds are associated with new guidelines and a periodic ‘re-learning of the process’. The role of the programmes in promoting economic development has been complicated by requirements such as the horizontal themes of equal opportunities and environmental sustainability. The fragmentation of the eligible and transitional areas in the current period makes it difficult to maintain coherence with other sources of funding operating within different administrative boundaries.

Bureaucracy – Structural Funds are increasingly regarded as bureaucratic instruments, especially in the current programme period. The application process is regarded as too complex and time-consuming, discouraging applicants from coming forward. The workload associated with monitoring and claims requirements is also a problem. A common complaint is that the procedures are often disproportionate to the funding obtained.

Subsidy mentality – Apart from the issues associated with the programmes, there are wider concerns relating to the ‘subsidy mentality’ encouraged by a long period of reliance on EU funding. Especially in the past, there have been insufficient incentives for projects and initiatives to be sustainable in the longer term without public support. Structural Funds are also regarded as one of a plethora that constitute a ‘dense’ institutional landscape of economic development organisations whose rationale (from either a policy or beneficiary viewpoint) and value are sometimes questionable.

It is difficult to disentangle the added value specifically associated with the ‘Scottish model’ of implementing the Structural Funds from the wider effects of EU funding. However, some of the evaluations make specific reference to the management arrangements, in particular with respect to partnership. For example, with respect to Western Scotland, it has been claimed that: “The Programme is the only regional forum available to those involved in economic development in Western Scotland, and it has played a significant role in encouraging partnership. It has also facilitated significant networking, and the Advisory Groups have been particularly effective in bringing together peer groups from across the region and across sectors. Without the Objective 2 Programme partnership would exist in much narrower senses, either at the local level, or between similar types of organisations.”

In some regions (e.g., the Highlands or South of Scotland), Structural Fund partnerships brought together local authorities and local enterprise companies almost for the first time, as well as enabling the voluntary sector, the education sector, environmental groups and others to participate in the economic development debate at a strategic level.

For the most part, evaluation studies rate the programme executives as being efficient and effective. They highlight examples of programme management and delivery encouraging a more strategic approach to the programme area and its objectives, for example where mechanisms have: “encouraged project sponsors to reflect on current activity and to justify and prioritise future activities. This has allowed the partnership to implement a strategy rather than to fund a series of individual projects”. There are also references to the PMEs facilitating greater integration and links between the different projects funded by the programme and between different measures.

4.4 Assessment of the Structural Funds in Scotland

The Structural Funds have involved major amounts of EU spending in Scotland. Unfortunately, and as is the case elsewhere in Europe, the economic impact of this funding is only partly measurable.

The programmes have clearly been associated with large numbers of jobs created and safeguarded, as well as other important contributions to economic and social cohesion. There also many examples of projects or initiatives that would not have gone ahead without Structural Fund support and others that might not have proceeded so quickly or at their current scale without the EU programmes. However, evaluation research has not been able to quantify the additional net impact of Structural Funds.

The same applies to the issue of the ‘added value’ of the EU requirements for programming and, in particular, the Scottish partnership-based model of managing and delivering the Structural Funds. There is some evaluation and academic research, as well as anecdotal evidence, regarding the benefits provided by the EU programmes in...
### Table 3: Structural Fund programme expenditure in the East of Scotland

<table>
<thead>
<tr>
<th>Period</th>
<th>Programme</th>
<th>Exp (£m) Nominal</th>
<th>Price year</th>
<th>Exp. (£m) 2001-02</th>
<th>Ref</th>
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</thead>
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<td>1975-88</td>
<td>Project applications (517) (ERDF)</td>
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<td>38</td>
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<td>47</td>
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<td>Eastern Scotland CSF (ERDF)</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Tayside Operational Programme 1</td>
<td>6.7</td>
<td>91</td>
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<td>1</td>
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<tr>
<td></td>
<td>Central Region Operational Programme 1</td>
<td>8.7</td>
<td>91</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Fife Operational Programme 1</td>
<td>9.9</td>
<td>91</td>
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<td></td>
<td>Lothian NPCI</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>1992-93</td>
<td>Eastern Scotland CSF (ERDF)</td>
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<td></td>
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<tr>
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<td>Central Region Operational Programme 2</td>
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<td></td>
<td>Lothian Operational Programme</td>
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<td>92</td>
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<td>2</td>
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<tr>
<td>1990-93</td>
<td>Eastern Scotland ESF projects</td>
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<td>1990-93</td>
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<td>94</td>
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<td>1990-93</td>
<td>Eastern Scotland RECHAR (ESF)</td>
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<td>92</td>
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<td>1990-93</td>
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<td>Eastern Scotland STRIDE (ERDF)</td>
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<td>94</td>
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<td>Eastern Scotland Objective 2 (ERDF/ESF)</td>
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<td>Rural NW Grampian Objective 5b (ERDF/ESF/EAGGF)</td>
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<td>1994-99</td>
<td>Rural Stirling &amp; Upland Tayside O5b (ERDF/ESF/EAGGF)</td>
<td>18.7</td>
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<td>23</td>
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<td>1994-99</td>
<td>North and West Grampian LEADER II</td>
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<tr>
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<td>Eastern Scotland Objective (ERDF/ESF)</td>
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<td>97</td>
<td>101.6</td>
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<td>99</td>
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<td><strong>Total</strong></td>
<td></td>
<td><strong>904.6</strong></td>
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</table>

Notes: Column 3: Nominal expenditure refers to the total given in the SPD or other programming document. Figures are for EC contribution only and refer to allocations in most cases with the exception of Community Initiatives where figures refer to funds utilised. Column 4: Assumed year in which figures are priced. Column 5: Figures converted to 2001-02 prices using HM Treasury deflator. Column 6: Reference sources.

terms of partnership-working, strategic thinking and integrated development. Again, though, there is currently a lack of systematic understanding of this issue.

Some of these research gaps will be addressed by current research. The ex post evaluations of the 1994-99 Structural Fund programmes will shortly be available, providing the latest insights into the impacts and performance of the programmes. The added value of Structural Funds has been explored on a pilot basis by the DTI during 2002, and the DTI has also ensured that it is incorporated into the current mid-term evaluation of the Structural Funds. It will, however, be important for this and related research to be brought together in a meaningful way – and focusing on those questions of particular interest in Scotland – if the evidence is to play a useful role in informing Scottish viewpoints on the future of the Structural Funds.

Table 4: Structural Fund programme expenditure in the Highlands & Islands

<table>
<thead>
<tr>
<th>Period</th>
<th>Programme</th>
<th>Exp (£m) Nominal</th>
<th>Price year</th>
<th>Exp (£m) 2001-02</th>
<th>Ref</th>
</tr>
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<td>1983-93</td>
<td>Financial Intervention in Fisheries</td>
<td>32.9</td>
<td>67</td>
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<td>1988-93</td>
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<td>Rural Enterprise Programme (EAGGF)</td>
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<td>Highlands &amp; Islands Obj. 5b ESF Operational Programme</td>
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<td>LEADER II</td>
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<td>1994-99</td>
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<td>1994-99</td>
<td>Pesca</td>
<td>3.5</td>
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<td>SME</td>
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<td>2000-06</td>
<td>Objective 1 Transitional Programme</td>
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<td><strong>Total</strong></td>
<td></td>
<td><strong>806</strong></td>
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Notes: Column 3: Nominal expenditure refers to the total given in the SPD or other programming document. Figures are for EC contribution only and refer to allocations; in most cases, with the exception of Community Initiatives where figures refer to funds utilised. Column 4: Assumed year in which figures are priced. Column 5: Figures converted to 2001-02 prices using HM Treasury deflator. Column 6: Reference sources.

### Table 5: Structural Fund programme expenditure in the South of Scotland

<table>
<thead>
<tr>
<th>Period</th>
<th>Programme</th>
<th>Exp (£m) Nominal</th>
<th>Price (year)</th>
<th>Exp. (£m) 2001-02</th>
<th>Ref</th>
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<td>Dumfries and Galloway Objective 5b CSF (ERDF/ESF)</td>
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<td>Leader I</td>
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<td>1992-93</td>
<td>Perifra II Borders CIP</td>
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<td>1994-99</td>
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<td>1994-99</td>
<td>Pesca</td>
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<td>94</td>
<td>1</td>
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<tr>
<td>1994-99</td>
<td>Rechar II</td>
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<td>94</td>
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<td>7</td>
</tr>
<tr>
<td>1994-99</td>
<td>Retex</td>
<td>1.08</td>
<td>94</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>1994-99</td>
<td>Dumfries and Galloway LEADER II</td>
<td>2.6</td>
<td>94</td>
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<tr>
<td>1994-99</td>
<td>Borders LEADER II</td>
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<td>2000-06</td>
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<td></td>
<td><strong>Total</strong></td>
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Notes: Column 3: Nominal expenditure refers to the total given in the SPD or other programming document. Figures are for EC contribution only and refer to allocations; in most cases, with the exception of Community Initiatives where figures refer to funds utilised. Column 4: Assumed year in which figures are priced. Column 5: Figures converted to 2001-02 prices using Treasury deflator. Column 6: Reference sources.

### Table 6: Structural Fund programme expenditure in Western Scotland

<table>
<thead>
<tr>
<th>Period</th>
<th>Programme</th>
<th>Exp (£m) Nominal</th>
<th>Price year</th>
<th>Exp (£m) 2001-02</th>
<th>Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986-87</td>
<td>Glasgow Nat. Programme of Community Interest (ERDF)</td>
<td>64</td>
<td>87</td>
<td>113</td>
<td>1</td>
</tr>
<tr>
<td>1988-92</td>
<td>Strathclyde Integrated Development Operation (ERDF/ESF)</td>
<td>274</td>
<td>88</td>
<td>462</td>
<td>2</td>
</tr>
<tr>
<td>1993</td>
<td>Western Scotland Operational Programme (ERDF/ESF)</td>
<td>73.5</td>
<td>91</td>
<td>92</td>
<td>3</td>
</tr>
<tr>
<td>1991-93</td>
<td>Western Scotland RENAVAL (ERDF)</td>
<td>16.4</td>
<td>93</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>1990-93</td>
<td>Western Scotland RECHAR I (ERDF/ESF)</td>
<td>3.0</td>
<td>93</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>1992-93</td>
<td>Western Scotland STRIDE, NOW, HORIZON, KONVER, RETEX, EUROFORM</td>
<td>5.0</td>
<td>93</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>1994-96</td>
<td>Western Scotland Objective 2 (ERDF/ESF)</td>
<td>226</td>
<td>94</td>
<td>275</td>
<td>4</td>
</tr>
<tr>
<td>1994-99</td>
<td>Western Scotland RECHAR II</td>
<td>1.99</td>
<td>94</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>1994-99</td>
<td>Western Scotland RESIDER</td>
<td>7.74</td>
<td>94</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>1997-99</td>
<td>Western Scotland Objective 2 (ERDF/ESF)</td>
<td>224</td>
<td>97</td>
<td>254</td>
<td>7</td>
</tr>
<tr>
<td>1997-99</td>
<td>URBAN – Glasgow North &amp; Paisley (ERDF)</td>
<td>9.8</td>
<td>98</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>2000-06</td>
<td>URBAN II - Clydebank South and Port Glasgow (ERDF)</td>
<td>7.99</td>
<td>00</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>2000-06</td>
<td>Western Scotland Objective 2</td>
<td>290</td>
<td>00</td>
<td>303</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>1559</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Column 3: Nominal expenditure refers to the total given in the SPD or other programming document. Figures are for EC contribution only and refer to allocations; in most cases, with the exception of Community Initiatives where figures refer to funds utilised. Column 4: Assumed year in which figures are priced. Column 5: Figures converted to 2001-02 prices using HM Treasury deflator. Column 6: Reference sources.


### Table 7: Non-regionally attributable Structural Fund expenditure in Scotland

<table>
<thead>
<tr>
<th>Period</th>
<th>Programme</th>
<th>Exp (£m) Nominal</th>
<th>Price year</th>
<th>Exp (£m) 2001-02</th>
<th>Ref</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-93</td>
<td>Stride</td>
<td>1.49</td>
<td>90</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1995-99</td>
<td>Objective 3</td>
<td>241.3</td>
<td>94</td>
<td>290</td>
<td>1</td>
</tr>
<tr>
<td>1996-99</td>
<td>SME (Lowland Scotland)</td>
<td>7.2</td>
<td>96</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>1999</td>
<td>Objective 4</td>
<td>11.4</td>
<td>99</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>2000-06</td>
<td>Leader +</td>
<td>17.32</td>
<td>00</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>2000-06</td>
<td>Equal</td>
<td>20</td>
<td>00</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>2000-06</td>
<td>Objective 3</td>
<td>310</td>
<td>99</td>
<td>324</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>674</td>
<td></td>
</tr>
</tbody>
</table>

Notes: Structural Fund figures not held on a regional basis before 1990, and unavailable for Scotland for 1989-93 period. Column 3: Nominal expenditure refers to total given in the SPD or other programming document. Figures are for EC contribution only and refer to allocations; in most cases, with the exception of Community Initiatives where figures refer to funds utilised. Column 4: Assumed year in which figures are priced. Column 5: Figures converted to 2001-02 prices using HM Treasury deflator. Column 6: Reference sources.

5. The reform of the structural funds

Having discussed the background to the Structural Funds in Scotland, the following three sections set out the debate over the future of EU regional policy – the so-called ‘Agenda 2007’. This section begins by exploring the parameters for the debate, followed by a review of contrasting viewpoints among Member States and other interest groups, and then a synthesis of the reform scenarios and options currently being considered.

5.1 Key issues

The starting point for Agenda 2007 is the impact of enlargement on regional development in the EU. The accession of ten Candidate Countries (CCs) will 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 agricultural bias is associated with low per capita GDP; the poorest CEE regions (in Latvia, Lithuania and parts of Poland) have a GDP per capita of below 30 percent of the (current) EU average.22 There are clearly major development problems with respect to underinvestment in public capital, low levels of entrepreneurship and SME activity, skills deficits, technological obsolescence, environmental legacies, the inefficiency of market economic institutions and the need to modernise public administration.

The process of convergence between the CCs and the EU-15 will be a long-term challenge. Recent figures suggest that it could take 25-30 years for many of the CCs to reach even 75 percent of the average level of GDP per head in the EU-15.

For the EU, economic and social cohesion is an important ‘pillar’ of the social market economy, and the Structural and Cohesion Funds are the main instruments with which regional inequality is addressed. Currently, these Funds are concentrated in the poorest parts of the EU-15 – mainly Greece, Portugal, Spain, southern Italy and eastern Germany – all of which are areas with a GDP per capita below 75 percent of the EU average (Objective 1 regions).

The problem for EU regional policy is that most of the new Member States are very poor. When the EU enlarges to 25 Member States, there will be a projected fall of 13 percent in the average level of GDP per head across the Union. The statistical effect of lowering the average EU GDP per capita figure will be to shift several of the current Objective 1 regions above the 75 percent threshold. According to the Commission’s analysis, 37 million people are contained in the regions currently eligible under Objective 1, which, after enlargement, would be above the 75 percent threshold. About one-third of this total would be above the 75 percent threshold irrespective of enlargement by virtue of relative regional economic growth, but the remainder would be above the threshold solely due to the ‘statistical effect’.23

In resolving the competing needs of the current and future poorer regions of the EU, it appears unlikely that there will be a significant increase in the financial resources available for EU regional policy. As noted in Section 2, at the Berlin Council in 1999 the EU allocated 2195 billion for Structural Funds for the 2000-06 period (at 1999 prices) together with 218 billion for the Cohesion Fund. Structural Fund allocations were planned on a trajectory that would see annual expenditure in the EU-15 falling from 229.43 billion in 2000 to 226.66 billion in 2006, thereby enabling a rising share of the Structural Funds to be allocated to the Candidate Countries.

For the post-2006 period, there is no agreement as yet on the likely budget. According to research studies conducted in recent years,24 the implications of enlargement for EU structural and cohesion policies may be an additional cost of approximately 21 billion per year. At the lower end of the spectrum of estimates, the cost projections amount to c.12 billion per year, rising to almost 30 billion per year in the case of the higher estimates. Taking account of the fact that the EU is already budgeting for an annual cost of post-enlargement structural operations of 12 billion, then the ‘gap’ between what is required and what is available may be as high as 18 billion but is predicted as averaging 9-10 billion.

At the higher end of this range of estimates, the predicted budgetary implications would require either an increase from 0.45 to 0.54 percent in the share of the EU budget allocated to structural operations or a reduction in the share of the EU-15 receipts (based on the projected
figures for 2006) by as much as 30 percent. On the other hand, the lower estimates would indicate a lesser impact. Indeed, it could be possible to accommodate both the needs of the new Member States as well as retaining sizeable transfers to the current Objective 1 recipients while continuing with Structural Fund support for areas or priorities outside Objective 1.

The European Commission’s view is that the 2006 budget should be the starting point for discussions about post-2007 budgets for structural operations; it regards the target of 0.45 percent of the EU’s GDP as a “minimum below which the credibility of future cohesion policy would be called into question”. However, across the EU there are widely differing views from those who advocate a substantial increase in resources for EU regional policy to those who regard 0.45 percent as a ceiling and would prefer cutbacks in expenditure (see Section 5).

While there is broad consensus on the need for EU regional policy to focus on the least developed regions, there is no agreement as yet on how to define these areas. The Commission has suggested several ways in which the eligibility of lagging regions might be undertaken, including: application of the present threshold of 75 percent irrespective of the number of countries joining the EU; application of a higher threshold to eliminate the statistical effect; and application of differential thresholds for EU-15 and CCs.

Looking beyond the lagging regions, there is also no consensus as to whether and how EU regional policy should provide support for other development priorities. The Commission has identified ten thematic and territorial priorities where, it argues, the Community has a justifiable role: industrial areas undergoing conversion; rural areas undergoing conversion; urban areas in difficulty; areas facing specific geographical or demographic handicaps; cross-border, transnational and interregional co-operation; social inclusion; equality of opportunity; the new economy and knowledge society; and more and better jobs.

Apart from financial allocations, the debate has been concerned with the value added of EU intervention. This encompasses a redefinition of roles and the distribution of tasks between the Commission and Member States, as well as the need to simplify the processes for managing, delivering and controlling the Structural Funds.

### 5.2 Timetable

The reform debate was effectively launched by the publication of the Second Cohesion Report (January 2001) and the Second European Cohesion Forum (May 2001), both organised by the European Commission, and the Informal Meeting of Regional Policy Ministers (June 2001) organised under the Belgian Presidency in Namur. Since then, the Commission has published its first 'Progress Report' on economic and social cohesion in an enlarged European Union and has initiated a series of seminars on the future priorities for the funds, beginning with a seminar on ‘defining Community value added’ (May 2002). It has also convened a ‘groupe de prospective’ to examine territorial and horizontal priorities for the

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**Notional timetable for the reform debate and negotiations**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2003</td>
<td>Second Progress Report</td>
</tr>
<tr>
<td>November 2003</td>
<td>Third Cohesion Report</td>
</tr>
<tr>
<td>January 2004</td>
<td>Third Cohesion Forum</td>
</tr>
<tr>
<td>Spring 2004</td>
<td>EC adoption of Agenda 2007 proposals</td>
</tr>
<tr>
<td>Summer 2004</td>
<td>Preparation of new Structural Fund legislative texts</td>
</tr>
<tr>
<td>Late 2005/early 2006</td>
<td>Adoption of new Structural Fund legislation by Council</td>
</tr>
<tr>
<td>2006</td>
<td>Negotiation of new Structural Fund programmes</td>
</tr>
<tr>
<td>2007</td>
<td>Launch of new Structural Fund programmes</td>
</tr>
</tbody>
</table>
Funds in more detail.

Member States have been engaged in internal consultations among governmental departments and with regional and sectoral interest groups, to varying degrees, as well as commissioning further research studies, to lay the groundwork for developing formal negotiating positions. There has also been some multilateral debate on reform in the Working Party on Structural Measures (under the General Affairs Council) and the Committee of Permanent Representatives (COREPER), most recently under the Spanish Presidency, where preliminary responses to the First Progress Report were considered by Member State officials.

Looking forward, the next ‘milestone’ will be the publication of the Second Progress Report by the Commission in January 2003, updating the analysis of economic and social cohesion and the evolution of disparities in an EU-25/27. An Informal Meeting of Regional Policy Ministers under the Greek Presidency is planned for May 2003, but the key period in the debate is expected to be late 2003/early 2004 with the publication of the Third Cohesion Report and subsequent Commission proposals for the proposed content of EU regional policy after 2006 (see above).

The timetable for negotiating and agreeing a reform of the Structural Funds is, however, subject to several important caveats. First, the admission of ten new Member States over the 2004-06 period will significantly change the political dynamics of the European institutions and the negotiation process. However, before enlargement takes place there is the potential for politics within Member States to delay the accession process, as exemplified by the debate in Ireland over the ratification of the Nice Treaty. The same applies to the Candidate Countries; for example, a Eurobarometer survey in the Baltic States in March 2002 found that only Lithuania could be sure of a referendum majority in favour of EU membership.

Second, a new Commission will be appointed midway through the process. On the one hand this may inhibit the current Commission from ‘binding’ its successor with detailed proposals, while on the other hand it will introduce a delay while the new Commission settles into office. A new European Parliament will also be elected in June 2004.

Third, the reform of the Structural Funds cannot be seen in isolation. Of potentially greater importance for several Member States is the reform of the Common Agricultural Policy and its financial implications. Also significant is the debate about the future of State aid policy in an enlarged EU, the implications for national regional aid and the future relationship between the spatial coverage of EU and national regional policies.

Lastly, there are other EU political and policy issues that have a bearing on the reform debate. These include: the discussion about future governance arrangements for the EU, and the allocation of responsibilities between European, national and sub-national levels; the further development of the Lisbon agenda concerning European competitiveness; adaptation to the single currency, and specifically any modification of the Maastricht criteria; and the European justice and security agenda, with particular reference to immigration, the integration of ethnic minorities and the approach to external borders.
6. Contributions to the agenda 2007 debate

The Agenda 2007 debate is still in its early stages, but Member States as well as regional and sectoral interest groups have already begun to mark out the territory for the negotiations planned to start in 2004. This section provides a flavour of the debate, focusing mainly on the views of the national governments across Europe, which will play the leading role in the negotiations and decisions on reform.

6.1 Member State perspectives

Among EU Member States, the deliberations have been mainly informal and internal, with a limited degree of public discussion about the reform options. Many countries are taking a reactive approach at present, waiting for proposals from the Commission and other Member States. A divide has already become apparent between Member States whose main objective appears to be the rationalisation of EU regional policy and those that are keen on the further development of EU regional policy. In this context, the common ground among EU countries appears to be limited to three broad issues:

- EU regional policy is important and necessary for solidarity between richer and poorer parts of the EU;
- the less-developed regions should remain the main priority of future regional policy;
- the administration of EU regional policy needs to be simplified.

The following discussion examines the stated views of individual Member States in more detail, dividing countries into three broad groups. It is important to note that this categorisation is merely for the purposes of discussion; in practice, the spread of views is more complex, and not mutually exclusive.

6.2 MS perspectives: Rationalisation of EU regional policy

Under this first heading is a group of countries generally opposed to an increase in the EU budget for Structural Funds (e.g., Germany, Austria, Netherlands, Sweden, UK). They favour the ‘renationalisation’ of EU regional policy, which – at its most extreme – would involve a complete cessation of Structural Funds in the richer EU Member States or would involve a simple budget transfer of EU resources to part-fund policies and priorities determined by the Member State. Among these countries, there is considerable support for the view that the EU should only intervene in relatively poor Member States unable to address these problems themselves; outside these areas, EU regional support should focus on actions with a ‘real’ community added value such as INTERREG. Failing that, post-2006 EU regional policy in the richer countries would transfer more responsibilities for implementation to the Member State level.

As the largest EU country and most important contributor to the EU budget, the view of Germany is of particular significance. The German position is that it strongly supports a cohesion policy in the interests of European solidarity, but that EU enlargement should not lead to an increase in spending on EU regional and agricultural policies. Speaking to the German Parliament in March 2002, the German Chancellor said that “Germany, as the country that finances 25 percent of the EU, wants Agenda 2000 to continue being the financial basis for the distribution of aid following enlargement”. Furthermore, those “who until now have been the sole recipients” of EU aid would need to show “a bit of solidarity” as neither agricultural aid nor the Structural Funds could be increased.28 A more detailed statement of the position was provided by the Ministry of Finance:29

“Member States are themselves primarily responsible for addressing internal disparities. Each Member State should demonstrate that they are making sufficient efforts themselves before considering EU aid.....The current maximum limit of the EU budget should be significantly under-spent even after enlargement....Additional expenditure for cohesion policy in the Candidate Countries after 2006 should be largely financed by savings in the current Member States:

- Savings must be fairly distributed across all current Member States. Comparable regions must be treated in the same way. National prosperity should be taken into account also in the allocations of Objectives 2 and 3.
There is a need to be clear on the added value of Structural Funds, identifying which aspects have been successful (e.g., inter-regional cooperation, SME and information society measures) and which actions could be transferred to national and regional levels.

It is dangerous to talk in terms of a ‘need for aid’ (e.g., EC discussion of urban areas), which raises unrealistic expectations.

Not all disadvantaged regions with particular geographical problems or characteristics (e.g., islands, mountain areas, sparsely populated areas) should be assisted by the EU.

There should be a stricter application of the subsidiarity principle – in all Member States it must be possible to operate a national regional policy.”

There are, however, major differences at sub-regional level. Some western German Länder (states) are keen to gain more flexibility to operate their own regional policies, whereas the eastern German Länder are less keen on ‘renationalisation’ of EU regional policy. Led by Sachsen-Anhalt and Thüringen, they want to ensure that the significant level of resources under Objective 1 can be maintained after 2006.

The approach of the German government to the reform of EU regional policy is shared in some important respects in Austria, although there appears to be less of a concern with ‘renationalisation’. Prior to the recent Austrian elections, the Minister of Finance stated that: “We certainly do not want to increase the 1.27 percent of GNP [the current EU budget ceiling] it is our preference to pay less [for EU structural and agricultural policies] and to allocate the funds to southern and eastern Europe”.

The Austrian Chancellor has also argued for more decentralisation and subsidiarity in the field of regional policy and critically questioned the high administrative costs of organising and controlling the Structural Funds.

In the Netherlands, the Dutch Government has been one of the most active Member States in debating the reform of EU structural and agricultural policies. In a radical contribution to the debate, it made the following proposals:

“The current focus on relatively poor regions in a Union of relatively rich member states was an agreed cohesion policy in past periods, but is in our view no longer sustainable....A national eligibility criterion, like a percentage of average GDP in the EU, should allocate the funds where they are most needed: in the poorest member states. Relatively rich member states are able to address their own regional problems.”

Lastly, the United Kingdom has not yet made a political contribution to the debate on the reform of the Structural Funds. Over the past two years, the Department of Trade and Industry has been engaged in an internal consultation exercise, mainly involving inter-ministerial discussions with the Treasury and the Office of the Deputy Prime Minister, as well as some liaison with the Devolved Administrations and the English regions. As part of this debate, the UK’s priorities for the Structural Funds were defined in the following terms:

- interventions should support the Lisbon agenda: knowledge economy, competitiveness and innovation; investing in people and combating social exclusion; sustainable economic growth and appropriate macro-economic policies;
- Structural Fund reform should not hinder the enlargement process;
- the outcomes of reform should be fair for the UK relative to the rest of the EU-15 and for the Candidate Countries;
- as a net contributor, it is in the UK’s interests to keep the budget down.

At the informal European council in Namur, the UK placed emphasis on understanding the purpose and added value of the Structural Funds as a principle for the reform of EU regional policy. Subsequently, the DTI has initiated an evaluation process to identify the added value of Structural Funds in the UK. A public consultation exercise is expected to be launched in January 2003, addressing fundamental questions such as how the Structural Funds could better address the Lisbon agenda, how to improve the effectiveness of the Structural Funds and better evaluate their impact, and how to reduce the bureaucracy surrounding the Structural Funds.
6.3 MS perspectives: Retention of current EU regional policy support for lagging regions

The Cohesion Countries have rejected the prospect of ‘renationalisation’, as expressed in the Dutch paper, as being incompatible with the EC Treaty, and they believe that the Funds should be adequately resourced to enable continued substantial support for the poorer parts of the current EU. Of particular concern is the ‘statistical effect’ on the eligibility of the less developed regions of the EU and the need for transitional (phasing-out) support for Objective 1 regions that become ineligible in an enlarged EU.

Spain was one of the first countries to voice a political position on the reform of the Structural Funds along these lines. In the so-called ‘Aznar Memorandum’, the Spanish Prime Minister attempted to link Structural Fund reform with progress on the enlargement talks during the first half of 2001:

“Spain fully shares the Commission’s assessment that its financial endowment will possibly require a greater volume of resources insofar as with enlargement not only will the number of Member States increase - and consequently the amount of potential beneficiaries - but also regional disparities... However, there would therefore be an artificial acceleration of the economic convergence process. This...would not, in fact, be a real convergence. The situation would affect several Member States and Spain considers that it must be duly taken into account.”

Portugal has also stressed the importance of maintaining receipts to the current Cohesion Countries and has highlighted the positive impacts of the Structural Funds. Speaking at the European Cohesion Forum, the Portuguese Minister for Planning, stated:

“It would be totally intolerable for Portugal if, as a result, of the “statistical convergence” effect, enlargement were to appear to be associated with a toning down of the Union’s commitment to the process of correcting the current regional development imbalances... It is clear that the volume of financing required to meet this solidarity effort of the structural measures cannot be limited to 0.45 percent of the European Union’s GDP.”

In Italy, the headline position of the Italian government on the reform of the Structural Funds was initially characterised in terms of ‘Italy threatens to block enlargement’. In May 2001, the Treasury and Budget Minister was quoted as saying that Italy’s support for enlargement was linked to the EU continuing to provide funds for the South: “If there are no compensations for the Mezzogiorno, then Italy will ask that the enlargement eastwards be slowed down”. More recently, the Italian Finance Minister argued that the share of the allocation of Funds intended for regions lagging behind in development “should be increased by five percentage points” taking account of the importance of these regions in an enlarged Union.

In subsequent debate, Italy has supported a qualitative reinforcement of European regional policy across the whole territory of an enlarged EU rather than any move towards a concentration on the new Member States and a renationalisation in the richer EU-15 countries. The Italian view is that the 75 percent threshold should be maintained, although with the option to include wider, non-GDP related designation criteria. Some form of compensatory mechanism should be identified for current Objective 1 regions which become ineligible as a result of the statistical effect. Support outside Objective 1 regions could be concentrated on cross-border, trans-national and European-wide initiatives.

6.4 MS perspectives: Continuation of EU regional policy outside lagging regions

Apart from those Member States with large Objective 1 receipts, other countries have expressed reservations about the prospect of ‘renationalisation’ of EU regional policy, as expressed in the Dutch paper. While these countries may support a limit on the budget allocated to EU regional policy they are also in favour of continued Structural Funds intervention in tackling problems outside of Objective 1, for example areas undergoing economic and social conversion or with serious geographical or natural handicaps. They generally prefer to retain the current ‘regional approach’ to implementing the Funds. An illustration of these viewpoints is as follows.

In Belgium, although there is no official view at federal level, regional ministers (exemplified by the contribution of the Minister-President of the Walloon Region) have...
noted that enlargement should not call into question the existence of a regional policy towards those regions in need within the EU-15 and that the Structural Funds should be able to intervene wherever there are persistent regional deficits in economic competitiveness.

The policy debate in Finland has also advocated continuation of development policies financed by the EU outside Objective 1, albeit with more flexibility in approach. However, an important concern for Finland is the importance of structural problems and depopulation in peripheral parts of the EU, and the need for the special treatment of sparsely populated areas as part of Objective 1 to continue. “Less-developed areas in Finland (North-Finland and East Finland) should be classified among the highest objective for regional Funds also after 2006”.39

In France, the former Prime Minister Lionel Jospin - in a keynote speech on “The future of an enlarged Europe” in May 2001 - strongly argued against the re-nationalisation of “policies that have been so far conducted at the Union level, particularly the Structural Funds”.40 The new government appointed in April 2002 has prepared a memorandum, published on 14 December 2002, which argues for the continuation of regional policy for the whole of the European territory.

Finally, Ireland has been cautious about engaging in the debate in view of internal difficulties associated with the ratification of the Nice Treaty and the need for sensitivity on the question of losing Structural Fund receipts. From having been a substantial recipient, Ireland is likely to become a net contributor to the EU budget in future years. As such, the strategic implications for Ireland are to ensure “fair burden sharing” in financing the EU budget and “to keep overall expenditure contained to a level that will minimise as far as possible our net contribution”.41 However, this is complemented by a desire to ensure a strong role for EU regional policy outside of Objective 1.42

6.5 Candidate country perspectives

By 2005-06, when the reform of EU regional policy will potentially be agreed, it is anticipated that the Candidate Countries will also be Member States of an enlarged EU, and they will also play an important part in the shaping of decisions. The EC proposals with regard to the reform of EU structural and cohesion policy have not, to date, provoked major debate in the CCs. At least in the short term, the Commission’s proposals seem to be judged as balanced and fair, and negotiators from the CCs are aware that, regardless of the precise details, they are certain to benefit.

There is a concern that maintaining an absorption limit on transfers44 from the EU will disadvantage Candidate Countries with lower levels of GDP, and there is a general expectation that the EU will raise this ceiling. However, the CCs recognize that, in terms of administrative capacity, absorbing Structural Funds is not easy, especially in the early years of a programming period. Some of the new Member States are not sure that they will have the administrative capacity to start their three-year programmes (2004-2006) by the date of accession. Some estimates for Poland, for example, envisage absorption rates of less than one-fifth of available funds.45 The level of co-funding and the availability of Government budgetary resources will also be critical limiting factors on absorption.

6.6 Sub-national interests

Apart from the views of the Member States and Candidate Countries, there are of course other significant contributions to the reform debate, most notably from bodies representing regional and sectoral interests such as the CPMR, RETI, Committee of the Regions, AER and Economic & Social Committee. Although they represent different interests and perspectives, there are some common positions among these contributions.

First, they are generally opposed to the renationalisation or rationalisation of EU regional policy. They see a continued important role for the EU in operating a regional policy outside Objective 1 regions, partly on principle (as a demonstration of EU solidarity), partly because there are continuing problems of structural change in many regions and partly because they recognise an added value in the interventions under the Structural Funds.

Second, they argue for increased resources for EU regional policy to meet the additional challenges of enlargement. Specifically, the Structural Funds budget should be increased – to at least 0.55 percent of EU GDP -
to allow the current Objective 1 regions to retain the present level of receipts, for example by raising the eligibility threshold above 75 percent in an EU-25.

Third, the design and implementation of Structural Funds should accord a greater role to regional and local authorities. This could be undertaken by ensuring better recognition of the contribution of sub-national bodies in the implementation of Funds, by devolving implementation responsibilities to ‘viable partnerships’ (CPMR) or by enabling regions to enter into contractual agreements direct with the Commission (AER).

Lastly, there is consensus that the administration of the Funds needs to be improved. Various proposals have been put forward for increasing efficiency, including both structural changes, such as integrating the Funds, and systemic rationalisation of the bureaucratic procedures.
7. Reform scenarios and options

7.1 Allocation options

It is evident from the previous discussion of perspectives on the reform debate that there are significant differences in view as to how EU regional policy funding should be allocated in future. On one side of the argument are the proponents of retaining a well-funded EU regional policy intervening in a wide range of areas and activities. This would allow a variant of the ‘status quo option’ to be maintained.

Under this option, the Structural and Cohesion Funds are extended eastwards but the absorption limit puts a cap on the amounts transferred to the Candidate Countries, permitting the EU to continue providing significant support for the lagging regions in the EU-15 and also intervening in support of other horizontal and thematic development priorities. The advantage of this approach is that it contributes to the political cohesion of the EU since most or all Member States would receive some Structural Funds, and – importantly – it ensures that the ‘net payers’ retain a vested interest in EU regional policy. The main disadvantage is the prospect of non-Objective 1 funding being spread very thinly across numerous small areas or priorities with a disproportionate administrative bureaucracy to deliver the Structural Funds in these areas.

This option appears to be the preference of the Commission at present, at least within DG Regio. It would retain Objective 1 as the priority for EU regional policy, applying the current threshold of 75 percent of EU GDP per capita, although the treatment of Objective 1 regions rendered ‘ineligible’ by virtue of the statistical effect is still an open question. EU regional policy would continue to have a role outside Objective 1 with a successor to Objective 2 encompassing a range of development priorities, as noted earlier. Co-operation between regions through inter-regional, transnational, cross-border and networking activities would also be retained.

The current main alternative to this is the ‘cohesion policy option’ put forward in the Dutch non-paper. This would allocate EU regional policy resources according to a national eligibility criterion to focus on the poorest Member States, effectively withdrawing Structural Funds from the disadvantaged areas of richer countries. Other support could be provided for activities, such as transnational co-operation, in both richer and poorer countries where such activities have ‘truly added Community value’.

The advantage of this approach is that 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. 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, possibly 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 richer members 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. Lastly, with a focus on Member State level convergence, and depending on the development priorities set by individual recipient countries, there is the potential for increased regional disparities within countries.

7.2 Implementation mechanisms

Apart from the issue of financial allocations, the system for implementing the Funds after 2006 is an important topic in the reform debate. Most Member States are concerned about the administrative complexity and bureaucracy of the Funds which has led to demands for simplification, both before as well as after 2006. There are also concerns with the fundamental ‘added value’ of the current system and the degree to which the management and administrative procedures improve the quality of economic development interventions. These issues are particularly relevant for those Member States that would receive limited Structural Fund resources after 2006.
In considering the range of future options, at one end of the debate is the proposal for a budgetary transfer mechanism, which is implied by some of the Dutch and German contributions. Under this option, Member States operate their own regional policies, with the EU financing part of the national policies and programmes by a budgetary transfer from the EU to the Member State. This would have the advantage of being straightforward to apply, especially in the richer Member States where the amounts would be small, and it would give Member State authorities maximum flexibility in selecting the priorities and areas of support. On the other hand, such a system would have very weak Community value; it would be difficult to ensure that expenditure was contributing to Community objectives. These objections could be overcome by some form of contractual agreement between the Commission and each Member State on the specific outputs to be achieved, or some other conditionality in the provision of expenditure, although this might be difficult where small amounts of expenditure were involved.

At the other end of the spectrum, is a simplified version of the existing mechanism. This option would be a variant of the current approach whereby the Commission adopts the list of eligible regions under the spatial objectives and negotiates and approves the content of CSFs, SPDs and OPs and their financing plans as well as influencing or controlling the monitoring, financial management and evaluation of interventions. The Commission has already identified scope for simplification in a range of areas within the current regulatory framework. Under new regulations after 2006, simplification could be extended with the transfer of more implementation responsibilities to the Member State level. Such an approach would enable the Commission to ensure that EU objectives are being addressed within Structural Fund programmes and also that important principles, such as the involvement of partners in development programmes, are respected. On the other hand, it is likely that even a simplified version of the current approach would not be acceptable to those Member States in receipt of small amounts of Structural Fund support. It is also difficult to see how the fundamental tension between the Commission’s responsibility for the execution of the EU budget and the desire for simplification could be resolved since some forms of Commission monitoring, financial control, evaluation and audit would continue to be necessary.

An intermediate approach being considered by DG Regio is for a differential implementation system, retaining the current mechanism for the large amounts of expenditure under Objective 1 but to adopt a menu approach for Objective 2 (or its successor). This could involve selecting

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• An information society for all: improving access to communications infrastructure, especially among excluded groups; using information technologies to renew urban and regional development and promote sustainable development

• Establishing a European area of research and innovation: improving the efficiency and innovation of research activities; improving the environment for research

• Creating a business friendly environment for SMEs: encourage the key interfaces between companies and financial markets, R&D and training institutions, advisory services and technological markets

• Education and training for living and working in the knowledge society: development of local learning centres, promotion of new basic skills

• More and better jobs: improving employability and reducing skills gaps; encouraging lifelong learning; reducing deficits in the service economy; extending equal opportunities

• Promoting social inclusion: improvement of skills; promotion of wide access to knowledge and opportunity
a limited number of thematic and territorial priorities at EU level as set out in the Second Cohesion Report:

- thematic priorities: the new economy and the knowledge economy; social inclusion; equal opportunities; and more and better-quality jobs;

- territorial priorities: issues associated with urban areas; areas undergoing industrial restructuring; diversification of rural areas, areas with severe geographical or natural handicaps; cross-border and inter-regional co-operation.

A variant on this approach would be to focus Community intervention on a menu of exclusively spatial priorities. Another would be to focus intervention on a limited number of exclusively thematic Community priorities, linking EU regional policy action more directly to the Lisbon agenda (see box below) and the sustainable development dimension agreed at the Gothenburg European Council (sustainable transport, renewable energy, prevention of natural and technological risks). Promoting inter-regional co-operation would be a feature of all of these options; indeed one of the variants being considered is for a future Objective 2 to be based on cross-border, trans-national or interregional co-operation.

The practical implications of implementing the ‘menu approach’ would probably involve the Member States or regions choosing from a limited number of priorities, developing programmes of support and entering into some form of contractual agreement with the Commission – a ‘tripartite contract’ between the region, Member State and the Commission has been suggested by Commission services. The management and delivery of assistance might be more flexible and decentralised than hitherto.

The main advantage of the menu approach could be flexibility. There could be a direct link between EU regional policy and the wider ‘competitiveness agenda’ of the EU, and individual Member States would be able to select areas of support which suit their needs and individual policy priorities. Spatial targeting could also potentially be adapted to suit individual needs, although the State aid rules – and the issue of coherence between Structural Fund and national regional aid maps – would be a constraint. A key question is whether the menu approach would deliver a simplified system of implementation. The suggestion of a ‘tripartite contract’ could merely be a variant of the current approach to managing the delivery of the Structural Funds, which would not meet the requirements of several Member States, as noted above.

This discussion of menu options applies to ERDF. There have been proposals to merge, or at least integrate, the horizontal funding provided under ESF with ERDF in a ‘new Objective 2’ after 2006. Integration between the Structural Funds and the rural development strand of the CAP (the so-called ‘second pillar’) has also been suggested. However, until now the Commission services have been working on separate proposals for the various strands of policy: DG Regio is developing its preferred proposals for a new Objective 2; DG Employment is working on a successor to the current Objective 3; and DG Agriculture is planning its own rural policy. Insofar as integration of Funds is on the agenda, it appears to be more concerned with establishing ‘dividing lines’ between the various financial instruments.

### 7.3 Spatial targeting

In determining allocation issues, the EU would need to take account of the political dimensions of the allocation process, the potentially small amounts of funding involved, relative to the current programmes, and the experience of spatial targeting outside Objective 1 areas. One of the most straightforward approaches could be to distribute a financial allocation to each Member State on the basis of simple criteria such as GDP per capita, supplemented by a labour market and/or geographical criterion. The Member State would then be able to distribute the financial allocation to regions, either using the same EU-level criteria or its own allocation system. Spatial targeting could take one of several options:

**Option 1: Spatial targeting at EU level.** The European Commission determines the criteria for spatial targeting of the Structural Funds, either with common indicators for all Member States or by providing a menu of indicators from which Member States can make a selection, with the resulting maps being adopted by the Commission. This would ensure consistency and coherence of Structural Funds area designation across the EU and provide a possible basis for coherence between Structural Fund and national regional aid maps (although there are mixed views as to whether this is desirable). However,
there is a limited range of EU-wide comparative indicators, especially given the narrow spatial targeting implied by parts of the Commission’s suggested menu of priorities. An EU-level approach also has the potential for incoherent or illogical map outcomes at regional or local levels and is not able to take account of region-specific needs.

Option 2: Spatial targeting at Member State level. Member States determine the criteria for the spatial targeting of Structural Funds, designating the maps according to national indicators. This would respect the principle of subsidiarity, allow Structural Funds to be adapted to national policy requirements and facilitate consistency/coherence between Structural Fund and national regional aid maps. On the other hand, there would be inconsistencies in area designation and maps across the EU. Moreover, this approach may only be able to take limited account of region-specific needs.

Option 3: Spatial targeting at regional level. The spatial targeting is carried out at regional level, with regional authorities selecting the criteria to be used within parameters (indicators, ceilings, systems) established at Member State level. This approach would reflect the regionalisation of economic development policy evident in many EU Member States and allow Structural Funds to be focused on region-specific needs. On the other hand, there would again be inconsistencies in area designation across the EU potentially within as well as between Member States and it would be difficult to enforce the principle of the concentration of aid. Greater onus would be placed on the regional level to comply with State aid rules, which might cause problems for national governments in exercising their responsibility for State aid compliance.

Option 4: No explicit spatial targeting. A more radical option would be for Structural Fund support to be allocated at regional level on the basis of ‘implicit’ spatial criteria (e.g. reducing digital exclusion in disadvantaged communities). Rather than creating boundaries on the basis of statistical criteria, which by their nature are arbitrary, a ‘bottom up’ system could be conceived whereby the targeting of the support is adapted to suit the needs of individual measures or even projects. This would potentially provide maximum flexibility in the allocation of aid but would be highly complex to administer and create uncertainties in administration for policymakers, programme managers and applicants. As with the previous option, it would be difficult to enforce the principle of concentration and would create difficulties in ensuring compliance with State aid rules.
8. Perspectives on the reform debate in Scotland

Turning from the national and international perspectives on Agenda 2007, an important objective of this research has been to gauge the responses to the reform debate in Scotland. The following section examines the awareness of the reform debate among economic development organisations in Scotland, the perceived implications arising from a loss of Structural Funds and the strategic responses articulated to date.45

8.1 Awareness

The general level of awareness on the reform debate among economic development organisations in Scotland appears to be relatively limited. There is a widespread recognition that EU enlargement will lead to a redirection of Structural Funds and that there will inevitably be a substantial decrease in the amount of EU funding coming to Scotland after 2006. However, apart from those individuals directly involved in managing Structural Funds at a fairly senior level, there appears to be little knowledge of the details of the debate under way, for example the different scenarios being considered or the menu of possible Objective 2 priorities.

Many economic development organisations do not appear to have given detailed consideration to the strategic or financial implications. Insofar as monitoring of the debate is under way, there is a perception that it has not yet reached a stage where it affects individual organisations. A common response can be summed up as “this is an issue that we will have to address soon” or “there is no need to panic since it will be some time before the debate takes off”. The report of the European Committee of the Scottish Parliament46 has been effective in putting the key issues in the public domain within Scotland but appears to have been treated as background information rather than a catalyst for involvement in the debate. The Committee’s conclusion, that there should be an intensive period of debate during Autumn 2002, has largely not been heeded.

There are practical reasons for such views. Many of those involved in the Structural Funds are pre-occupied with the management and delivery of the current generation of programmes, particularly given the low levels of take-up and concerns over progress in meeting the commitment and spending requirements of the N+2 rule. There is a significant workload in fine-tuning the programmes, generating new projects, ensuring compliance with monitoring and financial management obligations and engaging with the mid-term evaluations currently under way.

A more important reason is that the Scottish Executive has not sought views. There is a general assumption that consultation will take place “whenever the issue becomes relevant” but several respondents were concerned that there may be insufficient opportunity for participation in the debate. In the absence of public consultation by the government, engagement in the debate has been primarily through regional groups – the West of Scotland European Consortium, East of Scotland European Consortium, South of Scotland Alliance, the Highlands & Islands European Partnership, the Scottish Islands Group – and national and international networks such as the Conference of Peripheral and Maritime Regions, Euromontana, Euro-Cities and the European Rural Exchange.

The consequence of this lack of awareness is that relatively little thought appears to have been given to the need to prepare for the loss of Structural Funds. Although the award of support under the current programmes requires applicants to specify their ‘exit strategies’, one of the striking results of the interview survey is the apparently limited amount of thinking and preparation undertaken by some economic development organisations. In several cases, there is an expectation that some level of Structural Funds will still be available after 2006 (one respondent estimated that his organisation might still receive about half of the current level of support) as a result of continued eligibility or transitional support. In other cases, there was an assumption that the Scottish Executive or other funding sources would make up the shortfall. These views are not universal: several organisations located in the ‘transitional areas’ (designated in 1999) are already having to address the consequences of losing eligibility.

8.2 Implications of loss of Structural Funds

The implications of the loss of Structural Funds have not been properly assessed. In the view of respondents to the interview survey, the effects of reducing or losing the EU
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contribution to economic development would have consequences at four levels:

- the future viability of projects, services and initiatives,
- the priorities and activities of economic development organisations,
- the continuation of partnerships between economic development organisations,
- the approach to regional development in Scotland.

8.2.1 Implications for projects, services and initiatives

The removal of Structural Funds funding would mean that projects or services reliant on EU support would have to find alternative source of funding, become self-supporting or close. In some areas of activity, such as business development schemes operated by local authorities or the development agencies, the effect is more likely to be a reduction in the scale of activity. For other activities, particularly those with a community focus, the impact may be more detrimental.

In the interview survey, respondents identified a range of initiatives that would be badly affected, including the provision of training and learning services (Moray), projects based on the advocacy of research (Edinburgh), training programmes (Dumfries & Galloway), social inclusion and employment initiatives (Renfrewshire), employment advice centre programmes (Clackmannanshire) and community projects (Angus). The consensus among most respondents is that voluntary sector services, further education college courses and tourism development/promotion projects, which have depended heavily on EU funding, would be most seriously affected. Paradoxically, it appears that thinking about the consequences of the loss of Structural Funds is probably least advanced in these sectors.

8.2.2 Implications for economic development organisations

At a second level, the reform of the Structural Funds has implications for economic development organisations. Especially among those bodies that have received high levels of EU funding in the past, it is expected that there will have to be a restructuring of development priorities. Some respondents considered that it would take more time and effort to obtain funding for certain types of activity (eg. capital investment projects), which, in the absence of the EU programmes, would not necessarily be considered a priority. There is a concern that economic development budgets might be cut back, given the pressures to improve public services such as health and education. The scarce availability of funding would make it more difficult to deal with disparities and problems. Indeed, it was suggested that the existence of certain specialist economic development intermediaries might be under threat. Others were more positive, noting that spending on economic development would become more rational, without the ‘distorting influence’ of Structural Funds on organisational priorities. There would also be administrative savings from the reduction in bureaucracy associated with the EU programmes. Some internal reorganisation within economic development organisations was also envisaged with the downgrading or abolition of ‘European offices’ whose primary role has often been to acquire EU funding.

8.2.3 Implications for partnership

One of the most common views expressed during the interview survey was that loss of EU funding could have detrimental effects on partnerships between organisations. As noted above (Section 3), Structural Fund programmes have promoted strategic partnership among a wide range of regional and local organisations of different types as well as fostering operational cooperation on individual projects and initiatives. There is widespread concern that this level of partnership working would not survive the loss of Structural Funds. In other words, without the financial incentive, the regulatory requirements and pressure from the European Commission, economic development organisations (notably Scottish Executive Departments and the development agencies) would be less prepared to collaborate, especially at a strategic level. This concern appears to be most pronounced among the smaller local authorities, the voluntary sector and community groups, especially in the Central Belt. An alternative view – more prevalent in the Highlands and in the South of Scotland – was that partnership working is now ‘embedded’ within economic development practice in Scotland. It was argued that development bodies recognise the benefits of collaboration at both strategic and operational levels and that, even without the Structural Funds, they would continue to work together.
8.2.4 Implications for regional development

Apart from the direct impacts on individual projects, organisations and partnerships, an over-arching concern is the implication for the coherence of regional development in Scotland after 2006. It was repeatedly noted that, without the Structural Funds, there might be less interest in regional development on the part of the UK Government and Scottish Executive. The rationale for a regional policy would have disappeared, and the absence of a strategic, spatial planning framework would lead to short-termism in policy thinking and less predictability in the provision of funding.

8.3 Strategic responses to the reform debate

The responses to the reform debate are evolving in line with awareness of the implications of the loss of Structural Funds. Apart from some political statements, the main public contributions have been by the Scottish Parliament’s European Committee and various regional groups and networks.

8.3.1 Scottish Executive

The approach to the reform debate by the Scottish Executive has been based on several principles:

- to reinforce awareness that the current period is the ‘last period’ of Structural Funds for Scotland;
- to encourage future thinking based on the wider benefits (added value) of Structural Funds rather than maximising resources;
- to ensure that links between Structural Fund areas and national assisted areas are understood; and
- to promote links with the Candidate Countries.

In public statements, politicians have stressed the need to establish the effectiveness of the Structural Funds in Scotland as a basis for reform, in particular through the results of the mid-term evaluations of the current programmes:

“It is already clear that the allocation of future funds must be based on clear evidence of what had worked in the past and must reach those who need it most”.47

“As part of the way forward, we need to assess where Structural Funds have added value. We need a better idea of what works and what does not before we start thinking about the details of the new arrangements. Resources need to be focused on where they can make a real difference. In developing our thinking we need to use the lessons from monitoring and evaluation”.48

This approach is in line with the debate at UK Government level, where the Department of Trade and Industry has been developing a policy position based partly on an assessment of the impact and added value of the Structural Funds in the UK. Pending agreement on a ‘UK line’, the Executive has been cautious about making detailed statements on the reform, but in its response to the European Committee, it noted that:49

“It is important in making any case for future support to place appropriate emphasis on the conclusions from the Lisbon European Council in 2000 where Member States agreed to encourage enterprise and the growth of small and medium-sized enterprises and to promote competition within the Single Market. These principles accord with the Scottish Executive’s focus on the integration of socially disadvantaged groups into employment in line with the Social inclusion Strategy and supporting “Smart Successful Scotland”. It will be important to ensure that any arguments advanced that focus on issues of particular importance to Scotland, such as natural geographic disadvantage and urban deprivation, are supported by robust evidence”.

8.3.2 Scottish Parliament

The European Committee undertook the most comprehensive review of perspectives on the reform debate to date during Summer 2002. It drew attention to the lack of a public position on the part of the Scottish Executive and the need for ‘open, transparent and inclusive’ debate. Rejecting the option of ‘renationalisation’ of the Funds, the Committee recommended continued EU involvement in future regional development initiatives, and advocated an increased budget for regional policy to permit Structural Funds involvement in richer parts of the EU (such as Scotland) after 2006. The Committee
supported retention of the current principles of the Structural Funds, as well as greater emphasis on environmental sustainability, but recommended more focused support for regions suffering industrial decline and consideration of assistance for areas suffering severe geographical handicaps.

### 8.3.3 Regional groups

Across Scotland, there has been some preliminary thought about the post 2006 situation on the part of various regional groups and networks, in particular the Convention of Scottish Local Authorities, the Highlands & Island European Partnership, the East of Scotland Consortium, the Scottish Islands Group, the South of Scotland Alliance and the West of Scotland European Consortium. Each of these groups has specific issues of concern, but their messages can be summarised in the following terms.

**i)** Structural Funds have provided considerable benefits to Scotland in terms of funding and a comprehensive, strategic approach to economic development. Programmes have been built on analysis and promoted partnership, inclusion and sustainability. They have encouraged innovation and raised the profile of certain types of economic development issues (e.g. the problems of rural areas).

**ii)** There is a continued need for European assistance or replacement external support under a variant of Objectives 2/3 and the Community Initiatives. Significant socio-economic problems will remain after 2006, and the withdrawal of Structural Funds support could lead to loss of momentum in economic development. Future support should recognise the distinctive needs and challenges of different parts of Scotland.

**iii)** The implementation of future regional development efforts should continue to operate in an integrated manner. Under any future Structural Funds and also under national policies, a broader, more cohesive policy framework is required. More emphasis needs to be put on subsidiarity and decision-making by local partnerships.

**iv)** The consequences of enlargement for other policies need to be recognised, in particular the possibility that parts of Scotland may be affected by a double or triple ‘whammy’ as a result of loss of Structural Funds combined with loss of CAP receipts and a more restrictive State aid regime. This could arise through:

- **a.** the Common Agricultural Policy, where the shift from production support to rural development has uncertain implications. For example, the South of Scotland will be adversely affected by the impact of capping aid for larger farms but, like the Highlands & Islands, is unclear how resources for integrated rural development is to be allocated and managed.

- **b.** EC regional aid guidelines, where the loss of Structural Funds could also severely limit any public intervention and aid to business. The aid levels permitted after 2006 need to allow continued aid to SMEs and larger companies in certain circumstances. The criteria for determining aid ceilings and the eligibility of assisted areas should recognise the special needs of remote and sparsely populated parts of Scotland.

**v)** Preliminary proposals have been put forward with respect to the priorities that would need to be pursued if Structural Funds (and other policies) are to provide appropriate support for different parts of Scotland after 2006:

- **Highlands:** The Highlands & Islands European Partnership have advocated greater recognition of the special problems of mountain areas and sparsely populated areas. Future Structural Fund support should be provided for areas with severe geographical handicaps based on criteria such as population density (under 20 persons per square km) and mountainous areas based on an index of relative disadvantage. The same criteria should be used by the EC in determining eligibility for regional aid under Article 87(3)(a). Additional resources for rural policy, as a result of CAP reform, should be integrated with regional policy.

- **Scottish Islands:** Both the Highlands & Islands European Partnership and the Scottish Islands Group are arguing for recognition of the special problems of islands at Scottish, UK and EU levels. Future Structural Fund support for areas with severe geographi-
cal handicaps should include criteria relevant to the situation of the islands such as population density, demographic trends and degree of insularity. Under EU competition policy, derogations from State aid rules should be considered with respect to issues such as aid ceilings, de minimis criteria and permissibility of revenue aid.

- Dumfries, Galloway and Scottish Borders. The South of Scotland Alliance emphasises the relative importance of CAP reform for the region (CAP transfers are ten times the value of Structural Fund transfers per capita). Future resources from Structural Funds should be linked to aid from the ‘second pillar’ of CAP to provide integrated rural development support. Eligibility for future Structural Fund support would depend on aid for rural areas using criteria such as levels of agricultural GDP and employment, migration, population density and age structure.

- West of Scotland. The West of Scotland European Consortium has highlighted structural weaknesses in large parts of the regional economy and labour market that justify further EU intervention. Eligibility for future Structural Funds under potential aid for ‘urban areas’ or ‘industrial reconversion’ would depend on aid using criteria such as employment change, participation rates, business stock and indices of multiple deprivation.

8.4 Evolution of the reform debate

The above contributions to the debate indicate that, across Scotland, initial thinking about the implications of Structural Fund reform for Scotland is underway. The main bodies representing regional and local interests on European issues have begun to identify the areas of concern and preferred options for change. However, outside the main agencies and associations, it appears that awareness of the implications of reform is still limited, especially among local and community organisations. There is a major task required to engage with these organisations and to encourage their involvement in an open debate.

In responding to the European Committee report, the Scottish Executive stated that:

“Scottish Ministers recognise the importance of early participation in the debate and how vital that is in influencing the shape of the debate both within the UK and the European Union…..Our intention is to ensure that as wide a range of interests as possible is afforded the opportunity to participate”.

In practice, the Scottish Executive has not yet taken a lead to raise awareness or encourage debate. In the absence of such leadership, individual regional groups have taken the initiative, with direct lobbying of UK and EU officials and engaging positively with national and international networks. The South of Scotland Alliance, for example, is working through the European Rural Exchange, Highlands & Islands Enterprise has been working with Euromontana, the Scottish Islands Group with the Islands Commission, and the West of Scotland European Consortium with RETI. In part these efforts are intended to ensure a stronger voice for local interests but also to mobilise more practical outcomes, such as the current Europe-wide studies being conducted on indicators for mountain and islands areas in a future EU regional policy. The drawback is that the public discussion within Scotland has been fragmented and uncoordinated. Individual regional groups have engaged in lobbying on the basis of different objectives and there has been little interaction or sharing of information.

Although the European Commission will not be presenting proposals for negotiation until late 2003 or early 2004, the UK Government’s consultation exercise is likely to be launched in early January 2003. Given the time required to generate awareness and encourage thinking among the wide range of organisations across Scotland that have an interest in Structural Funds, there is a risk of not being able to develop an agreed, composite ‘Scottish view’ within the likely timescale of the DTI consultation. Also, if Scotland is to make an effective strategic response at EU level, the public debate will need to start immediately.

The delay in launching a public debate in Scotland contrasts with the position in most other parts of the UK. In Wales, the Welsh Assembly organised a seminar in October 2002 to provide an opportunity for discussion among stakeholders about the future of Structural
Funds, led by the First Minister for Wales and stressing “the importance of partners in Wales working together to achieve the best for Wales in an enlarged EU”. Most of the English regions have held similar seminars or prepared interim position papers.

With regard to the UK debate, it will be important to be aware of the competing territorial interests and pressures on the UK Government. In England, there is likely to be a continued flow of Structural Funding under Objective 1 until 2012-13 at least, since Cornwall may continue to qualify for Objective status, even in an EU-25, and transitional funding will probably be available for South Yorkshire and Merseyside, as well as for West Wales. An important issue for some of the English regions and Wales, therefore, is how to maximise use of Objective 1 funding for the next funding period. Other pressures on the UK Government will come from the big English urban and industrial regions (West Midlands, North-East England, North-West England) which have benefited significantly from Objective 2 aid over a long period of time as well as from influential lobby groups such as the Alliance for Regional Aid. English rural issues are also likely to be articulated given the problems in farming and the lasting effects of the foot-and-mouth crisis.

Some of these territorial interests are shared in Scotland, but others – notably the problems of peripherality and islands communities - are distinctive. This presents a challenge to the Scottish Executive and regional groups as to how the ‘Scottish case’ can be made effectively. In doing so, it should be noted that, by comparison with previous reforms of the Structural Funds, the English regions now have a stronger voice (through the regional assemblies and development agencies) to articulate a coherent position, as do the devolved administrations in Wales and Northern Ireland.

The interview survey suggests that there are several priorities for the development of a Scottish position. First, the Scottish Executive needs to launch a debate at the earliest opportunity. Adequate time needs to be allowed for economic development bodies to understand the issues and consider the options. Second, it will be necessary to gain a better understanding of the added value of the Structural Funds and how to exploit the lessons within domestic policies. The debate should not automatically or only seek to maximise resources but should also consider new ways of supporting economic development in Scotland post 2006. Third, there should be a co-ordinated approach to managing the debate and developing a strong case and coherent message, in particular between the Scottish Executive, members of the Scottish, UK and European parliaments, development agencies, local authorities and programme executives. This should not inhibit individual groups from advocating their own interests in individual ways, but this should be undertaken within a framework that enable Scottish interests to be promoted with a ‘common voice’.
9. Options and issues for Scotland

The Agenda 2007 reform debate is still in its early stages. The EC is unlikely to table proposals for at least a year, and the UK, like other Member States, is still developing its negotiating position. At this point in the debate, the main question facing the richer countries of the EU is whether to retain a role for Community regional policy in addressing their structural problems or to limit EU intervention to the poorest parts of the Union.

This presents a dilemma for the Scottish Executive: should they advocate the retention of Structural Funds in Scotland or support the ‘renationalisation’ of regional policy. In previous reform debates, it was very clear that Structural Funds should be retained given the sizable financial transfers to Scotland that could be expected. In the present debate, the issue is much less clear-cut given that potential financial receipts from the EU will be lower than previously.

The following section explores this question in more detail. It postulates two possible scenarios that may emerge, the first being an outcome whereby Scotland continues to receive Structural Funds but on a much reduced scale, and the second being a scenario where the UK decides to ‘renationalise’ its regional policy. In each case, the advantages and disadvantages are discussed from a Scottish perspective as well as some of the strategic implications to be addressed. (It should be stressed that these are not the only possible options and the issues raised are not mutually exclusive to the two scenarios.)

9.1 Scenario 1: Retention of Structural Funds

The first scenario is that the EU agrees to continue providing Structural Funds for areas outside the Objective 1 regions. The EU may decide to retain the current Objectives 2 and 3 and many of the Community Initiatives, either separately or combined together in a new Objective 2. Such aid might be provided for a mix of territorial and thematic priorities selected at Scotland or UK level from a ‘menu’ of objectives and priorities specified by the European Union. The targeting of aid, by area or sector, might be carried out at UK or Scotland levels. As now, the use of the aid might be planned in the form of a multi-annual programme, potentially using a simplified form of contract-based planning and implementation agreement (as used currently for the Community Initiatives).

9.1.1 Advantages

The main advantage of this scenario is that Scotland would continue to benefit from additional external funding for economic development, albeit much reduced, for a further seven years. This would ease the transition away from Structural Funds and continue to promote the principles of EU regional policy in Scotland, notably multi-annual programming and partnership within a strategic framework. A menu approach could allow the funding to be targeted on territorial and thematic priorities of particular relevance to Scotland (eg. urban deprivation, rural diversification, geographical handicaps). It could provide a continued source of funding for experimental and innovative projects, especially those falling outside the priorities of the major development agencies and local authorities. At least some of the EU-funded work by voluntary, community, environmental and education sectors could be safeguarded. At European level, Scotland would retain a vested interest and experience in the design and delivery of EU regional policy, providing scope for inter-regional exchanges and the continued transfer of operational experience to the new Member States in Central and Eastern Europe.

9.1.2 Disadvantages

The key drawback would be the continued administrative cost of implementing a relatively small amount of Structural Funds. It is possible that a system of ‘lean management’ could be devised at EU level, learning lessons from experience with the Community Initiatives. However, any EU system would necessitate bureaucratic requirements of planning, financial management, audit, monitoring and evaluation that would enable the Commission to discharge its responsibilities to the Council, Parliament and Court of Auditors. It is probable that the limited amount of EU funding would need to be used for ‘softer’ forms of assistance with sophisticated objectives (eg. reducing digital exclusion) and for smaller projects. As the experience with the current programmes illustrates, such funding is not easy to administer and could require disproportionate resources for delivery. It may also be difficult to retain coherent strategic influence with smaller scale programmes.
9.1.3 Implications

The implications for this scenario are that Scotland would need to play an active part in shaping the current debate over the funding of Structural Funds outside Objective 1.

First, it would need to identify the most important and relevant territorial and thematic priorities and engage in the UK and European discussions with the objectives of ensuring that:

- the composition of a possible Structural Funds ‘menu’ meets Scottish interests;
- the eligibility and financial allocation criteria used for distributing the Funds maximise the gains for Scotland;
- the mechanisms for targeting the Funds (eg. designating aid areas) are devolved at least to Member State level and preferably to NUTS 1 (Scotland) level;
- the processes for designing and managing programmes of support are devolved to Scotland level (albeit within an EU framework of objectives) with a simple, rational and lean model of implementation.

Second, it would require a strategic consensus among the different political and economic interest groups within Scotland to promote and pursue the above objectives. Previous experience shows that the most effective regional lobbying strategies are those where all of the key actors are presenting a ‘single message’. The main avenues are:

- incorporating Scottish priorities within the UK negotiating position (DTI, DEFRA, Treasury, FCO, Cabinet Office, UKREP);
- direct lobbying of the European Commission (DG Regio, DG Employment, DG Agriculture) and European Parliament;
- exploiting links with sympathetic Member States and ‘partner’ regions;
- utilising regional and sectoral networks (CPMR, Euromontana, RETI, AER etc).

Third, a subsidiary set of issues concern the way in which future Structural Funds might be managed within Scotland. A future delivery system could take one of several forms:

- Retention of the current PME structure (separate PMEs for the Highlands, Eastern, Southern, Western Scotland, Objective 3). This option has the advantage of continuity and provides a coherent territorial focus but may be overly bureaucratic for the scale of funding and may not be appropriate for the priorities agreed.

- Separate, rationalised Structural Fund management (reduction of PMEs to two territorial bodies for the Highlands and Lowlands respectively). This would simplify the administrative structure and has the advantage of retaining a devolved and coherent territorial approach, at least for the Highlands, but may find it difficult to combine the very varied interests and needs of the eastern, southern and western parts of the country.

- Subsumed, delegated Structural Fund management (within Scottish Enterprise, Highlands & Islands Enterprise). This option would simplify the administration of the Funds still further, aligning implementation with the existing delivery mechanisms of the development agencies. However, the loss of the PMEs would jeopardise partnership-working and there would be a risk of the development agencies dominating the allocation of funding in line with their own priorities, diminishing the potential added value of the Funds.

- Centralised, Structural Fund management (within the Scottish Executive). This would be the simplest of the options, allowing an integrated development approach to be taken for the country as a whole. However, as with the previous option there would be a real danger of the funding being subsumed totally within Scottish Executive priorities and initiatives, thereby losing the added value of EU intervention.

9.2 Scenario 2: Renationalisation

The second scenario is that the EU restricts Structural Funds to the less-favoured parts of the Union (Objective 1). EU aid could be concentrated on the poorest countries (as with the current Cohesion Fund) or on the poorest regions (as with the current Structural Funds). This
implies that the richer Member States opt to ‘renationalise’ regional policy: in other words, outside of Objective 1, regional development would be exclusively the responsibility of the Member States. Under this scenario, Scotland would receive no Structural Funds after 2006, with the possible exception of some transitional support and/or funding for any remaining Community Initiatives such as INTERREG.

9.2.1 Advantages

The principal advantage of this scenario is that economic development in Scotland would not be subject to external influence by the EU in terms of the objectives, priorities and implementation mechanisms of spending. There would be savings in the administrative costs and bureaucracy associated with managing the Structural Funds. More positively, there could be scope for fresh thinking about the principles and practice of economic development in Scotland, notably the opportunity for developing a new regional policy based on Scottish needs, objectives and priorities.

9.2.2 Disadvantages

The downside of the ‘renationalisation’ scenario is the loss of external funding (unless the deficit is made up at UK level). In the absence of Structural Funds, the resources and priority given to economic development by the Scottish Executive, the development agencies and local authorities might diminish. Certain projects or initiatives could be downgraded or discontinued. There is no guarantee that a national regional policy would replace the Funds – neither the UK Government nor the Scottish Executive appears to have given much priority to issues of regional disparity (although there are some signs that this may be changing). Also, without the impetus of the Funds, economic development in Scotland may become less coherent – with a loss of regional strategic thinking, the fragmentation of initiatives and dissipation of partnerships. The predictability of multi-annual programmes could be replaced by short-termism in policy geared to electoral cycles. Policy-making could become more centralised and exclusive. Theoretically, the renationalisation scenario may also have negative implications for the provision of regional aid (through Regional Selective Assistance), if the EC continues to link the spatial coverage and award ceilings of national regional aid to eligibility for Structural Funds.

9.2.3 Implications

The main implication of the renationalisation scenario is the need to prepare for the complete cessation of Structural Funds in Scotland. ‘Transition’ or ‘exit’ strategies would need to be given a higher profile than hitherto.

If a new regional policy regime were to be introduced, policy thinking and debate would need to begin early in the life of the new Scottish government. Key questions would include the following:

- To what extent are regional disparities in income and employment opportunities considered important?
- What weight should be given to the policy objectives of equity relative to the objectives of growth and competitiveness?
- Which policy sectors should be encompassed by a new regional policy framework (business development, transport, environment, employment etc.)?
- Is there a need for new regional strategic planning frameworks? How would these relate to existing planning mechanisms?
- How could a new regional policy be operationalised?

A more immediate issue would be to address the implications of the renationalisation scenario for regional aid. On the one hand, there may be a trade-off between loss of Structural Funds and more flexibility for national aid policies, but there would be a real danger of a new regional policy being significantly constrained by very low permissible spatial coverage and aid ceilings.
EU Enlargement and the reform of the Structural Funds: the implications for Scotland

10. Summary and Conclusions

EU enlargement and European Structural Funds

1. The European Council has agreed that ten Candidate Countries - Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia – will be ready to join the European Union (EU) from the start of 2004. Enlargement will affect all aspects of the EU, including a reform of agricultural and regional policies to meet the challenges of an EU of 25 Member States. In the field of EU regional policy, a debate on the future of the Structural and Cohesion Funds has begun to determine the allocation of funds in the period 2007-2013.

2. For Scotland, there are important questions in this debate: what are the implications of different reform scenarios for EU regional support in Scotland? How would the loss of Structural Funds affect regional and local development in Scotland? How should Scotland approach and influence the reform debate?

3. The aim of this paper has been to examine the implications of the reform of the Structural Funds for regional development in Scotland. It reviews the history and impact of Structural Funds in Scotland from 1975 to the present, explores the scenarios for reforming the Funds and considers the advantages and drawbacks of the different options from a Scottish perspective.

Structural Funds in Scotland

4. Scotland has benefited from European aid for more than 25 years. By 2006, it is estimated that European Structural Funds will have provided an estimated £4 billion of funding for economic development in most parts of the country. Combined with national and local government co-financing and investment from the private sector, the EU-funded programmes have probably involved more than £10 billion of investment. The aid has been used in areas such as improving transport and communications infrastructure, business support, environmental improvement, employment and training schemes, innovation, tourism marketing and community development.

5. The economic impact of EU funding in Scotland (as in many other parts of the EU) has never been properly assessed. Despite the scale of EU funding in Scotland, there has been no rigorous and thorough evaluation of its net impact on employment. Although the EU programmes have been evaluated many times, these evaluations have rarely been sufficiently resourced or able to employ the methodological tools required to establish the additionality of the Funds.

6. Notwithstanding the lack of inadequate impact assessment, there is considerable evidence that the EU Structural Funds have contributed ‘added value’ to economic development in different parts of Scotland. There are numerous projects, especially major ‘flagship’ tourism and cultural projects, which would not have been undertaken (at least in terms of scale and timing) without EU funding. The European programmes have promoted strategic thinking and collaboration among economic development organisations, including not just the established agencies but also the voluntary sector, education sector, environmental bodies and the social partners. The ‘Scottish model’ of implementing EU funding has been recognised across Europe as an exemplar of how to promote partnership-working effectively. The EU programmes have also encouraged some innovation and experimentation and acted as pioneers in areas such as equal opportunities and environmental sustainability.

The reform of the Structural Funds

7. As a result of EU enlargement, the European Union is re-examining many of its policies. The enormous economic and social problems in Central and Eastern Europe will require a redirection of EU resources after 2006, at the expense of richer countries such as the UK.

8. A debate is under way among Member States and regional and sectoral interest groups to determine the shape of the reform (Agenda 2007). Several of the richer countries, notably Germany, are unwilling to pay higher contributions to the EU budget, while the poorer Member States, such as Spain and Portugal, want to retain the high levels of EU aid which they have received over the past 15 years. The debate is also about the role of the EU in economic development. Some countries, such as the Netherlands, have advocated a ‘renationalisation’ of
regional policy, giving the richer Member States sole responsibility for dealing with their own internal regional problems. Others disagree, fearing a downgrading of national commitment to regional development.

9. Under the projected timetable for Agenda 2007, the European Commission will put forward its proposals for reforming the Structural Funds in late 2003 or early 2004. This will initiate a period of intensive negotiations among Member States with a view to agreeing a financial framework for the EU for the 2007-2013 period by 2006.

The future of Structural Funds in Scotland

10. Under the likely scenarios for reforming the Structural Funds, Scotland would lose some or all of its EU aid. The implications of the loss of Structural Funds have not been fully assessed. However, the effects of reducing or losing the EU contribution would have consequences for the future viability of projects, services and initiatives, for the activities of economic development organisations and their collaboration, and for the overall approach to regional development in Scotland.

11. The question facing Scotland is how to approach the Agenda 2007 debate: Should it argue in favour of continued support from the EU (and, if so, attempt to determine the priorities for any such support)? Or should it accept the loss of Structural Funds and focus on a new approach to regional development in Scotland after 2006?

12. The approach to be taken depends on the policy priorities of the Scottish Executive and the views of those involved in economic development across Scotland. It also depends significantly on the policy ‘line’ taken by the UK Government, which will be negotiating the reform of the Structural Funds. As in any such negotiations, there will be compromises between Member States and trade-offs within Member States, with respect to the gains and losses between structural and agricultural policy receipts and between the different parts of the UK.

13. Scotland has been slow to engage in this debate. Several regional bodies have begun to define their priorities and contribute to the discussion at UK and EU levels, often in concert with partner regions from other countries. However, they are largely operating independently and there seems to be little interaction and co-ordination. Further, it appears that many local economic development bodies likely to be affected by the loss of Structural Funds (especially in the voluntary and education sectors) are poorly informed and ill-prepared for the withdrawal of EU aid. The Scottish Executive has largely been engaged in ‘behind the scenes’ discussions with the UK Government and European Commission.

14. Compared to previous reforms of EU regional policy, the issues are less clear-cut for Scotland. On the one hand, there could be some continued Structural Fund support available from the EU for either territorial priorities (such as urban, industrial or rural areas, or areas with severe geographical handicaps) or thematic priorities (information society, job creation, social inclusion, equal opportunities). This would allow some of the current EU-funded activities to continue, especially in the voluntary and education sectors which rely heavily on the Structural Funds. However, the available funding is likely to be limited and could be disproportionate to the administrative cost associated with its implementation.

15. On the other hand, it is possible that the EU restricts Structural Funds to the less-favoured parts of the Union (ie. Objective 1 regions), leaving the richer Member States to take exclusive responsibility for their own regional development. For Scotland, the complete loss of Structural Funds could provide an impetus for fresh thinking about the principles and practice of regional development in Scotland, notably an opportunity for developing a new regional policy based on Scottish needs, objectives and priorities. Equally, in the absence of Structural Funds, there could be a decline in the policy priority and resources accorded to regional development by the Scottish Executive, development agencies and local authorities. Economic development might also suffer a loss of regional strategic coherence, the fragmentation of initiatives and dissipation of partnerships.

16. In assessing the scenarios, it is important to take account of the links between the reform of Structural Funds and other EU policies. In some parts of Scotland, the reform of the Common Agricultural Policy...
has potentially greater implications for the future of integrated rural development. The loss of eligibility for Structural Funds may also have important effects on the ability to award State aid under national policies, unless there is some ‘trade-off’ between the reduction in Structural Funds and the EC competition policy rules.

**Engaging in the Agenda 2007 debate**

17. The next ‘milestone’ in the debate at EU level will be the publication of the Second Progress Report on the evolving reform debate in early 2003 which should provide some further insight on the thinking of the European Commission. Within the UK, the Department of Trade & Industry is shortly expected to launch a three-month consultation process as part of the process of developing a UK negotiating position. By the end of 2003, it is expected that the European Commission will be in a position to present its proposals for the reform of the Funds, and the Member States are likely to have determined their approaches to the negotiations.

18. If Scotland is to engage effectively in the Agenda 2007 debate over the coming year, the Scottish Executive will urgently need to accelerate a process of public consultation, raising awareness of the issues, determining the ‘added value’ of the Funds in Scotland, and assessing the implications of losing EU aid. Given that the DTI is about to launch a UK-wide public consultation, and will shortly be seeking a ‘Scottish view’, the launch of such a process need to move forward quickly.

19. In their approach to Agenda 2007, the prevailing view among regional interest groups in Scotland is that any opportunities for continued EU intervention in economic development after 2006 should be exploited. This will involve a difficult process of identifying the most important territorial and thematic priorities of relevance to Scotland and building a strategic consensus among the different interests to promote a coherent and co-ordinated ‘message’ at UK and EU levels.

20. Finally, whatever the level of Structural Funds coming to Scotland after 2006, it should be clear that the days of major EU transfers are over. The key issue in discussing the reform of the Structural Funds is not to maximise receipts but to understand the lessons from more than 25 years of Structural Funds and to establish a consensus on how these experiences can be exploited to improve the future effectiveness and efficiency of regional development in Scotland.
### Annex 1: Consultees

<table>
<thead>
<tr>
<th>Name</th>
<th>Interview Type</th>
<th>Position/Role</th>
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<tbody>
<tr>
<td>Lutz Badenhop</td>
<td>T</td>
<td>European Services Manager, Angus Council</td>
</tr>
<tr>
<td>Andrew Blackadder</td>
<td></td>
<td>EU Adviser, Shetland Islands Council</td>
</tr>
<tr>
<td>Sandy Brady</td>
<td>F</td>
<td>Head of Strategy, Highlands &amp; Islands Enterprise</td>
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<tr>
<td>Nuala Boyle</td>
<td>F</td>
<td>Scottish Enterprise</td>
</tr>
<tr>
<td>Anne Campbell</td>
<td>T</td>
<td>Senior Officer, Corporate Services, City of Edinburgh Council</td>
</tr>
<tr>
<td>Adrian Colwell</td>
<td>F</td>
<td>Special Adviser to the First Minister, Scottish Executive</td>
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<tr>
<td>John Ferguson</td>
<td>T</td>
<td>Community Development Manager, Moray Council</td>
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<tr>
<td>Tony Fitzpatrick</td>
<td>T</td>
<td>EU Adviser, Dumfries &amp; Galloway Council</td>
</tr>
<tr>
<td>Frank Gaskell</td>
<td>T</td>
<td>Head of European Affairs, Highlands &amp; Islands Enterprise</td>
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<tr>
<td>Lorna Gregson-MacLeod</td>
<td>F</td>
<td>Asst Programme Director, Highlands &amp; Islands Partnership Programme</td>
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<tr>
<td>Lynn Henni</td>
<td>F</td>
<td>Team Leader, Structural Funds, Scottish Executive Development Department</td>
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<tr>
<td>Jackie Hill</td>
<td>T</td>
<td>Economic Development, Renfrewshire Council</td>
</tr>
<tr>
<td>Colin Imrie</td>
<td>F</td>
<td>Head of Press Office, Scottish Executive</td>
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<tr>
<td>Malcolm Leitch</td>
<td>F</td>
<td>European Officer, West of Scotland European Consortium</td>
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<tr>
<td>Paul Kane</td>
<td>T</td>
<td>European Officer, Aberdeenshire Council</td>
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<tr>
<td>Ken MacDonald</td>
<td>T</td>
<td>Clackmannanshire Council</td>
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<tr>
<td>Donald MacInnes</td>
<td>F</td>
<td>Director, Scotland Europa</td>
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<tr>
<td>Denis Malone</td>
<td>F</td>
<td>Chief Executive, Highlands &amp; Islands Programme Partnership</td>
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<tr>
<td>Alec McGhee</td>
<td>F</td>
<td>Councillor, Chair of West of Scotland European Consortium</td>
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<tr>
<td>Brian McGrath</td>
<td>T</td>
<td>Economic Development &amp; Environmental Planning, Scottish Borders Council</td>
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<tr>
<td>Gordon McGuiness</td>
<td>T</td>
<td>Scottish Enterprise Renfrewshire</td>
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<tr>
<td>Donald MacKinnon</td>
<td>T</td>
<td>Programme Director, South of Scotland European Partnership</td>
</tr>
<tr>
<td>Diane Mclaoderty</td>
<td>F</td>
<td>Head of European Structural Funds, Scottish Executive Development Dept.</td>
</tr>
<tr>
<td>Gordon McLaren</td>
<td>F</td>
<td>Chief Executive, East of Scotland Programme Management Executive</td>
</tr>
<tr>
<td>Allan McQuade</td>
<td>T</td>
<td>Director, Place Development &amp; Special Projects, Scottish Enterprise Dunbartonshire</td>
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<tr>
<td>Bill Miller MEP</td>
<td>F</td>
<td>European Parliament</td>
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<tr>
<td>Irene Oldfather MSP</td>
<td>F</td>
<td>Convenor, European Committee, Scottish Parliament</td>
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<tr>
<td>Julian Pace</td>
<td>T</td>
<td>Scottish Enterprise Borders</td>
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<tr>
<td>Peter Peacock MSP</td>
<td>F</td>
<td>Deputy Minister for Finance, Scottish Executive</td>
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<tr>
<td>Joyce Petrie</td>
<td>T</td>
<td>European Services Manager, Stirling Council</td>
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<tr>
<td>David Porch</td>
<td>T</td>
<td>Director of Planning &amp; Environment, North Lanarkshire Council</td>
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<tr>
<td>Laurie Russell</td>
<td>F</td>
<td>Chief Executive, Western Scotland Programme Management Executive</td>
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<tr>
<td>Fiona Thompson</td>
<td>T</td>
<td>Scottish Enterprise Renfrewshire</td>
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<tr>
<td>Irene Walker</td>
<td>T</td>
<td>Scottish Enterprise Dumfries &amp; Galloway</td>
</tr>
<tr>
<td>Ben Wallace MSP</td>
<td>F</td>
<td>European Committee Member, Scottish Parliament</td>
</tr>
<tr>
<td>Sharon Wallace</td>
<td>T</td>
<td>Inverclyde Council</td>
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<tr>
<td>Pamela Woodburn</td>
<td>T</td>
<td>Strategy &amp; Funding, Scottish Enterprise Lanarkshire</td>
</tr>
</tbody>
</table>

F=face-to-face interview; T=telephone interview
Endnotes

3. J Bachtler (2001b) EU Enlargement and Structural Funds in Scotland; Quarterly Economic Commentary, Fraser of Allander Institute, University of Strathclyde, Glasgow, 26(4), 228-33.
4. Equivalent to about £900 million in 2001-02 prices. Prior to the creation of the European Currency Unit (ECU) in 1979, the European Unit of Account (EUA) was used for calculating payment balances within the Community.
5. 1985 figure and prices.
7. 1984 prices.
12. 1992 prices.
13. 1999 prices.
14. Specific ceilings apply for certain forms of aid (such as investment in businesses), and the rate of assistance varies according to the ‘Community interest’ and type of funding.
20. Interim Assessment of the Highlands & Islands Objective 1 Programme, Segal Quince Wicksteed Ltd. 1997.
24. A review of recent research on the impact of EU enlargement on Structural Fund budgets is provided in J Bachtler (2001a) op. cit.
33. Eingangsstatement zur Europarunde by Dr Wolfgang Schüssel, 27 June 2002, Hofburg, Vienna.

35. Regional Policy and Enlargement, Memorandum by the Spanish Government to the European Commission.


37. After Spain, Italy threatens to block enlargement, EU Observer, 18 May 2002.


39. Speech by the Prime Minister of Finland, Paavo Lipponen, Lieksa, 8 April 2002.

40. Speech by Lionel Jospin, former Prime Minister of France, ‘L’avenir de l’Europe élargie’.

41. Ireland and the European Union: Identifying Priorities and Pursuing Goals, Department of the Taoiseach, Dublin.

42. Cohesion policy from the point of view of enlargement, Address by the Minister for Finance, Mr Charlie McCreevy, TD to the Second European Cohesion Forum, Brussels, 22 May 2001.

43. The Berlin European Council agreed a ceiling on EU regional aid transfers to any Member State of four percent of GDP – the so-called ‘absorption limit’.


45. This part of the paper is based on consultations with a range of economic development bodies across Scotland (see Annex 1) undertaken over the period September-December 2002.


47. Key note address by Mr Jack McConnell MSP, First Minister, to the ‘Life After Steel’ Conference, Implications of Enlargement and the Changing Shape of Regional Policy for Scotland”, Motherwell, 1 May 2002.
