Influence of European Structural Funds on Social and Economic Performance in Spanish and Portuguese Regions

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Introduction

Spanish and Portuguese regions make up a distinct area in the European Community. Majority of them can be described as less developed economies with strong dependence on agricultural production. The position of those regions is somehow underprivileged due to their peripherality as well as topographic restrictions, which cause integration problems with the common market. In many of these areas of the Iberian Peninsula, small- scale and low tech agriculture still dominates. In most cases these regions are considered to be the areas, in which traditional economy is not adapted to market conditions. Also infrastructure provision in these areas is less developed and of poorer quality than in other parts of Europe. More advantageous situation can be observed in North - East Spanish regions, which have completed the bulk of their structural adjustments and are perceived as success areas. Nevertheless European cohesion policy still has an important role to play in dynamizing economic growth and in sustaining welfare of the habitants in the Iberian Peninsula.

Structural Funds and the Cohesion Fund are the most important instruments of the cohesion policy in the European Union. Structural Funds aim at improving factors, which increase the levels of regional competitiveness, or employment levels, and they support less developed regions in expanding their potential. Spain and Portugal have been participating in a significant portion of community funds since their integration into the EU. European financing obtained by the analyzed two countries has played the role of the most important instrument, which defined economic and social evolution both in Spanish and Portuguese regions.

The objective of the research is to present socio-economic aspects of Spanish and Portuguese regions' development. This paper focuses on territorial units, regarded in the European nomenclature (for statistical purposes) as NUTS 2 level. The research is based on the analysis of reports by the European Commission, Committee of the Regions as well as national studies. Also EUROSTAT and national statistical data were used in the article.

The first part of the paper is focused on social and economic changes in the analyzed regions. The second part is centered on European Structural Policy for those Spanish and Portuguese regions, which remain "behind" in terms of economic development.

The chronological range covers the period from 1986 (the year of Spanish and Portuguese integration into the European Union structures) till the current programming period ending in 2006. Some information on new Structural Funds regulations for 2007-2013 has also been included.

Social and economic evolution of Spanish regions

Spain is located in the Eastern part of the Iberian Peninsula, covering approximately a 4/5 of its area, that is, 504 645 km^2. The population resident in January 2005 was 44.1 million inhabitants. The average density is little less than 90 persons per km^2. In administrative terms Spain is divided into 17 Autonomous Communities (Aragon, Balearic Islands, Basque Country, Cantabria, Catalonia, La Rioja, Madrid, Navarre, Andalusia, Asturias, Canary Islands, Castile-La Mancha, Castile and Leon, Extremadura, Galicia, Murcia, Valencia) and two autonomous cities - Melilla and Ceuta [Institute National de Estadistica, 2006][1].

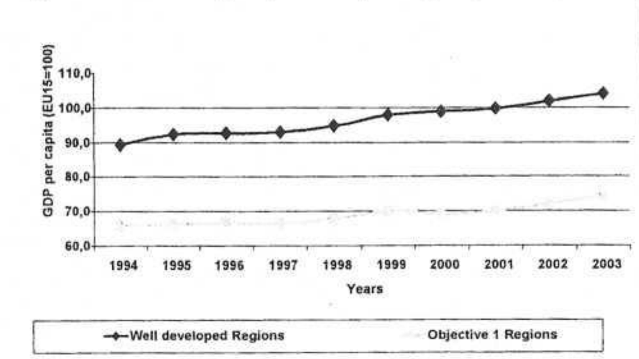
In any analysis of social and economic development of the Iberian Peninsula regions, it is rather difficult to separate the benefits of environmental, historical or economic conditions from the profits of the integration process. Economic and social data clearly demonstrate that even without structural aid, highly developed regions are favored by the Common Market, and Cohesion Policy can not accelerate economic growth in less developed regions to close the economic gap between them (Figures 1 and 2).

Spanish regions have been divided into two groups depending on how much structural funds

1 Autonomous Communities *(Comunidades Autonomas)* were established after the death of Francisco Franco and the restoration of democracy. In addition, two Spanish cities on South Africa coast - Ceuta and Melilla enjoy the same autonomous rights as the regions. These cities are not included in the analysis in this paper.

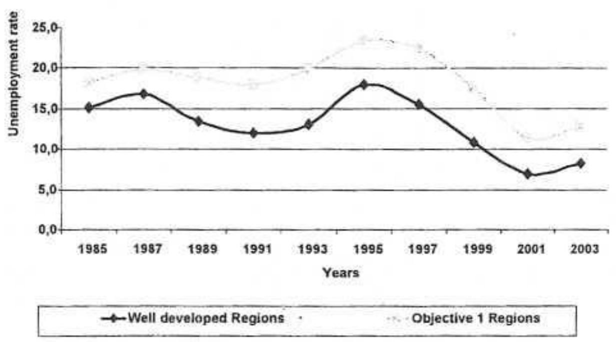
they have obtained in 2000-2006. The major part of European Funds went to less developed regions under Regional Policy Objective 1. Despite the fact that better developed regions obtained much less funds, the available data illustrates how well developed they are, namely Communities Autonomous located close to French border in North-East part of Spain (Basque Country Navarre or Catalonia) and regions focused on services and tourism (such as Madrid or the Balearic Islands). Since integration into the EU those regions have achieved a high level of economic development in terms of GDP per capita, and they have only minor problems with unemployment. Changes in GDP per capita rate in well developed regions can be clearly observed on Figure 1. Since integration to the European Communities differences between well - developed regions and the remaining Autonomous Communities have been significant, and during the last few years they have been increasing systematically [European Commission, 2001]. Growing inequality between the regions has been noticed despite European Structural Funds and Interterritorial Compensation Fund, which gave priority to the less developed regions. This situation causes considerable concern, because the most important aim of the European Cohesion Policy is to narrow regional economic and social differences.

Figure 1. Evolution of GDP per capita rate in Spanish regions (1994–2003)



Source: Eurostat

Figure 2. Unemployment rate in Spanish regions (1985–2003)



The level of economic growth is closely linked to the situation on the labor market, which leads to large disparities in unemployment rate between the analyzed groups of Spanish regions. With economic expansion in the Basque Country, Catalonia, Madrid, Balearic Islands or Navarre, the number of jobs is on the increase. Since integration into the EU unemployment rates have decreased in the group of well developed Autonomous Communities nearly twice: from more than 15% of workforce in 1987, to 8% in 2003. Objective 1 regions have also experienced a decrease in unemployment rates, but their present situation is less favorable (Figure 2).

Social and economic evolution of Portuguese regions

Portugal is located in the Western part of the Iberian Peninsula and covers approximately 20 percent of its area. The mainland is about 89 000 km^2, and the total area is over 92 00 km^2 when the Azores and Madeira Archipelagos have been included. In 2005 Portugal had a population of about 10,5 million inhabitants [European Communities, 2005], The border with Spain covers 1 200 km and the coastline is 943 km long. In administrative terms, under the European nomenclature of territorial units for statistical purposes, seven regions represent the NUTS 2 level, namely: Norte, Centro, Lisboa e Vale do Tejo, Alentejo, Algarve, and two autonomous island regions: Madera and Afores [Soromenho - Marques, Queiros and Vale, 2003],

The economic and social situation in Portugal is much more complicated than in Spain. Despite a higher economic growth than in non cohesion countries, Portugal is the least developed country of all former fifteen Member States. There is a significant gap in terms of GDP per capita between this country and the other Member States. However. European Structural Funds helped to accelerate economic performance of poor Portuguese regions Changes in GDP per capita level and unemploymeni rate are presented in two figures below. As witf

Spanish regions earlier, Portuguese regions have been divided into two groups depending on how much Structural Funds they obtained in 2000-2006. Only in the capital region, Lisboa e Vale do Tejo, the rate of GDP per capita exceeded 75% of the Community average, and in the current period this region obtained only transitional support. In all remaining regions GDP per capita rate is less than 75% of the Community average and in 2000-2006 these regions are covered by Objective 1 [Commission Decision 1999/502/EC], Available data illustrate how well-developed the capital region is showing that recently it has achieved a high level of economic development in terms of GDP per capita.

Figure 3 presents changes in GDP per capita rate in Objective 1 regions and a well developed region of Lisboa e Vale do Tejo. Similarly to Spain differences between these two groups are still significant, and moreover, they have increased systematically over the last decade. A growing inequality between the regions can be observed despite European structural aid [European Commission, 2001], Almost all Portuguese regions are highly dependent on the activities of the primary sector, namely Alentejo, Centro and the Ayores. These regions have also the lowest GDP per capita of all the NUTS II regions in Portugal. Only in Lisboa e Vale do Tejo region employment in the primary sector can be compared to the levels observed in well-developed areas.

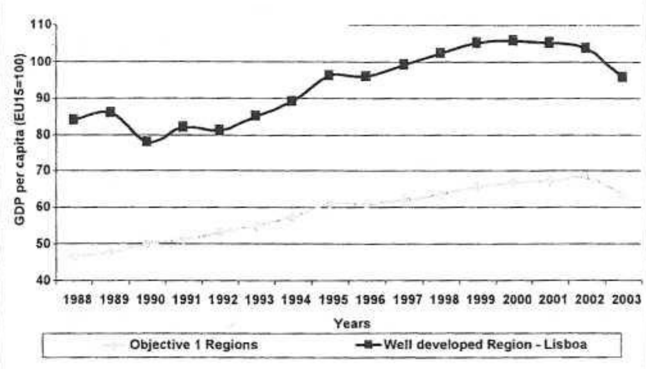


Figure 3. Evolution of GDP per capita rate in Portuguese regions (1988–2003)

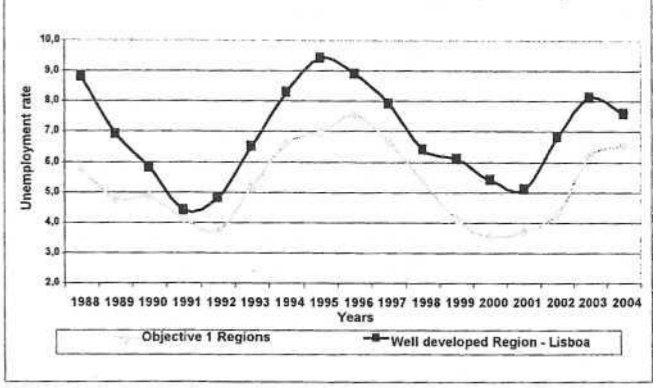


Figure 4. Unemployment rate in Portuguese regions (1988–2003)

Source: Eurostat

On the other hand, the situation on the Portuguese labor market is still better than in other European Countries. Unemployment rate remains below 7% for the whole country, and only in the capital region it does exceed this level. It means that unemployment rate in Portugal is below the EU average (Figure 4). However, between 2001 and 2004 the rate of unemployment almost doubled (from 4.0% to 7.0% of the workforce). The cause of unemployment rate increase is a slow pace of economic development and a lack of structural changes. In the group of underdeveloped regions unemployment rate (less than 7% of the workforce in 2004) is lower than in most of the other EU countries. Unemployment is not evenly spread. Above all, it affects young people and female population. Another unfavorable factor is long-term unemployment, which has started to increase over the last few years.

Many positive changes in Spain and Portugal were possible particularly due to European Structural Funds. European financial aid for less developed regions has a significant effect in reducing disparities in economic performance across the Union and in narrowing the gap in GDP per capita between the four Cohesion countries and the rest of the Union.

Structural Funds in Spain and Portugal

Structural Funds and the Cohesion Fund are the main instruments of the European Cohesion Policy. Structural aid improves the structural factors, which determine the level of regional competitiveness, and it helps the regions which remain "behind" in terms of economic development regions to increase their growth potential.

Spain and Portugal have been participating in a significant part of community funds since their integration into the EU. Structural aid which allocated to these two countries is related to four structural funds - European Agricultural Guidance and Guarantee Fund (EAGGF), European Social Fund (ESF), European Regional Development Fund (ERDF) and Financial Instrument for Fisheries Guidance (FIFG). Since 1993 Spain and Portugal have also become the beneficiary of the Cohesion Fund.

Among all the EU members, it is Spain which benefits from structural funds in the widest range, both in previous years as well as during present planning period, but Portugal's share in Structural Funds is also very high.

European means obtained by Spain and Portugal within the framework of structural funds and the Cohesion Fund have played the role of the most important instrument, which determined economic development of the countries and their particular regions. European aid resulted in raised economic development rate, increase of investment scale in infrastructure and, what is even more important, caused considerable unemployment reduction.

Table 1

Breakdown of Structural Aid in Spain and Portugal, 1989-1993 (in millions of ECU)

Countries	Objective					Community Initiatives	Total	
	1	2	3,4	5a	5b		millions of ECU	%
Spain	10 171	1 506	837	321	265	1 129	14 229	20.85
Portugal	8 450	–	-	-	-	724	9 174	13.44
Total EU12	**43 818**	**6 130**	**6 669**	**4 102**	**2 232**	**5 285**	**68 236**	**100.00**

Source: Commission of the European Communities, *European Cohesion Report,* Brussels/Luxembourg 1996.

A Structural Funds reform of 1988 increased the level of financial aid and focused on the regions with the lowest GDP per capita (Table 1). The two analyzed countries received practically 35% of all Structural Funds projected for the 1989-1993 period. Unquestionably the biggest part of all Funds was obtained by Objective 1 regions. During the first period 1989-1993, GDP for the whole Portugal was at the level of approximately 60% of the EU average, and was covered by structural aid under Objective 1. In the Spanish case, nine Autonomous Communities have been identified as Objective 1 regions, namely: Andalusia, Asturias, Castalia y Leon, Castalia La Mancha, Valencia, Extremadura, Galicia, Murcia and Canary Islands. Objective 1 area covered 80% of the Spanish territory.

Similarly to the first programming period, between 1994 and 1999, Spain was again the main beneficiary of European Structural Funds. Spaniards obtained 22.6% of all financial aid (Table 2). Compared to the first financing period, the European Commission qualified one more Autonomous Community - Cantabria - as a region qualified as Objective 1. .

GDP *per capita* level in Portugal was at the level of 68% of the EU average, and the entire country was covered by structural aid under Objective 1.

Table 2

Breakdown of Structural Aid in Spain and Portugal, 1994—1999, (in millions of ECU at 1994 prices)

Countries	Objective							Community Initiatives	Total	
	1	2	3	4	5a	5b	6		millions of ECU	%
Spain	26300	2415	1474	369	446	664	-	2781	34449	22.6
Portugal	13980	-	-	-	-	-	-	1061	15041	9.9
Total UE15	**93972**	**15352**	**1293 8**	**2246**	**6155**	**6860**	**697**	**14018**	**152238**	**100.0**

Source: Commission of the European Communities, *European Cohesion Report,* Brussels/Luxembourg 1996.

Economic impact (effects) of EU structural aid can be analyzed in two aspects. Firstly, in terms of impact upon demand, transfers from the European Community budget raised income in beneficiary regions, which can be spent on goods and services. Second aspect is connected with building productive potential in the region by improving infrastructure, skills of the workforce, and setting up regional small and medium enterprises. This kind of impact is of a long-term nature and is called the supply-side effect [Commission of the European Communities, 1998].

Table 3

Simulation Results of Structural Funds (growth effects as % difference from baseline)

Cohesion countries	**Comparison of sii** **BEUTEL yearly average**	**nulation results obtained fr HERMIN4 Total effects (of which demand effects)**	**om macroeconomic models** **QUEST II yearly average**
	1989-1993 1994-1999	**1994 1999**	**1989-1993 1994-1999**
Spain	0,3 0,5	1,9 4,3 0,9) (2,9)	0,1 0,1
Portugal	0,9 1,1	7,0 9,2 (7,0) (8,1)	0,3 0,3

Source: Commission of the European Communities, *Sixth periodic Report on the Social and Economic Situation and Development Regions in the European Union,* Brussels/Luxembourg 1998.

Three macroeconomic models, analyzing economic effects of EU structural funds, were included in the *Sixth Periodic Report on the Social and Economic Situation and Development Regions in the European Union.* They focused on one or both of the two aforementioned effects. The BEUTEL model focuses on the general and sectoral effects of increasing demand. According to this model, EU transfers from 1989 to 1993 and from 1994 to 1999 are estimated to have increased GDP growth by approximately 0,9 percentage points in the first period and 1,1 percentage points in the second in Portugal and 0,3 and 0,5 percentage points in Spain respectively (Table 3). If we compare this macroeconomic impact with annual transfers from Structural Funds, which were equal to 3.2% of GDP for Portugal and 1.1% for Spain, then we shall see that in relation to the received aid, additional growth achieved was lesser in Portugal than in Spain. Impact on employment appears to have been more limited. A major reason for this is that capital grants or subsidies to the private sector have been used to increase capital intensity of production or to replace the existing plant and equipment with more modem machinery, either way tending to raise labor productivity [Commission of the European Communities, 1998],

The HERMIN model includes both demand and supply-side effects. According to the model, supply-side effects in Spain are estimated to be smaller than in Portugal, mainly because of the smaller size of EU transfers in relation to the Spanish GDP. In the last model, QUEST II, which incorporates both demand and supply-side effects, Portugal gained 0,3 percentage points a year in both first and second programming periods, and Spain only 0,1 percentage points respectively.

Preparation for Economic and Monetary Union and necessity for Spain, Portugal, Ireland and Greece to fulfil the convergence criteria forced the EU to establish a broader range of financial aid for these countries. In order to support less developed countries the Cohesion Fund was established in 1993 through a provision of the Maastricht Treaty. In order to qualify for the Cohesion Fund, the rate of GDP per capita in a beneficiary country had to be lower than 90% of the EU average. The first funding period of the Cohesion Fund ran from 1993 to 1999. Two main areas, transport and environment, are supported through this Fund. The total budget for the aforementioned four Member States for years 1993-1999 was approximately 17 billion of Euros. The following table shows percentage allocation by the Commission for the four cohesion countries in the period 1993-1999. Data shown in Table 4 clearly indicate that the main beneficiary of the Cohesion Fund is Spain with more than half of funds received each year.

Table 4

Countries' Percentage Participation in Cohesion Fund (1993-1999)

Cohesion countries	**Years**							
	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**1993-1999**
Greece	**17,9**	**17,9**	18,0	**17,9**	18,0	18,0	**17,6**	**17,9**
Ireland	9,1	9,1	8,8	9,1	8,9	9,0	8,7	8,97
Spain	**54,9**	**54,9**	**55,0**	**54,9**	**55,1**	**54,9**	**56,2**	**55,1**
Portugal	**18,1**	**18,0**	**18,0**	**18,0**	**17,9**	**18,1**	**17,6**	**17,98**
Technical assistance	0,02	0,03	0,09	0,09	0,07	0,06	0,0	0,05

Source: Commission of the European Communities, *Commission Report. Annual Report of the Cohesion Fund 1999,* Brussels 11. 01.2001.

During the current programming period 2000-2006 the regions covered by Objective 1 are those in which GDP per capita measured in purchasing power parities is less than 75% of the Community average, or those, which are treated as the outermost regions. Nine of Spanish Communities Autonomous are listed as Objective 1 regions, namely Galicia, Asturias, Castillia y Leon, Castillia La Mancha, Extremadura, Valencia, Andalusia, Murcia, and the Canary Islands. Another Spanish region, Cantabria, received transitional support under Objective 1 from January 2000 till the end of December 2005. Nearly all of Portugal is treated as Objective 1 area. Only the capital region, Lisboa e Valede Tejo, received transitional support [Commission Decision, 1999/5 02/EC].

Between 2000 and 2006 Spain has raised more than 62 billion Euros from Structural Funds for less developed regions and for those with structural problems. With more than 26% of all funds Spain, as it was in previous years, remains the main beneficiary of European structural aid (Table 5). Over this programming period transfers to Objective 1 regions are equal to 0,.9% of GDP in Spain and 2.1% in Portugal. The average amount of structural aid per capita in this period for less developed regions is approximately the same as in 1999 [European Commission, 2004],

For the period 2000-2006 new important changes were introduced to the Cohesion Fund, which since 2004 has been designed to assist the 10 new Member States from the Central Europe. Along with the new Members States, Ireland (until the end of 2003), Greece, Portugal and Spain also benefited from the Cohesion Fund. The measure of aid eligibility has been changed, and now only countries where Gross National Product (before Gross Domestic Product) is less than 90% of the average EU figure can expect funding. Another change is connected with the Cohesion Fund's distribution. The Spanish share rises to 61.0-63.5% of the total funds, and in Portugal it remains approximately at the same level as in the 1993-1999 period.

Table 5

Structural Funds, Cohesion Fund and Community Initiatives in Spain and Portugal during 2000-2006 Programming Period (million EUR, in 2004 prices)

Member State	Obj. 1	Obj. 2	Obj. 3	FIFG	Cohesion Fund	Community Initiatives	Total min Euro	%	% of population
Spain	42 061	2 904	2 363	221	12 357	2 162	62 067	26,6	80.7
Portugal	21 010	0	0	0	3 388	741	25 139	10,8	66.6
UE15	**150 104**	**24 367**	**26 553**	**1 226**	**19 717**	**11 361**	**233 328**	**100,0**	**40.3**

Source: European Communities, *Working for the regions,* Luxembourg, 2004.

For the duration of the next period, 2007- 2013, Structural Funds (ERDF, ESF) and the Cohesion Fund will contribute to three objectives: Convergence, Regional Competitiveness and Employment and European Territorial Cooperation. As before, regions with a regional GDP below 75% of the EU average are eligible for the Convergence objective. The main aim of the Convergence objective is to improve growth conditions and factors, which impact real convergence in less developed regions and all Member States. The regions eligible for funding from Structural Funds under the Convergence objective in Portugal are Norte, Centro, Alentejo, and A9ores. Algarve is another Portuguese region eligible for funding under the Convergence objective, but only on a transitional basis[2]. Also four Spanish Autonomous Communities, Galicia, Castilla-La Mancha, Extremadura and Andalusia, will receive structural aid under the Convergence objective, while Asturias and Murcia are eligible for funds on a transitional basis. Portugal with GNP per capita less than 90% of the EU average is also eligible for means from the Cohesion Fund, whereas Spain will received funds on a transitional basis.

Financial resources for the three objectives in Portugal and Spain are shown in Table 6. For the first time Spain will not be the main recipient of structural means as a result of the latest enlargement process of 2004. In the 2007-2013 programming period a new Member State, Poland, become the major beneficiary of the European Cohesion Policy.

[2] According to Article 8 Council Regulation (EC) No 1083/2006 the regions which lose eligibility for Convergence objective because of statistical effect (their nominal GDP per capita rate exceed 75% of the average GDP of the EU-25) are eligible, on a transitional basis, for financing by the Structural Funds under the Convergence objective.

Table 6

Structural Funds and Cohesion Fund in Spain and Portugal during 2007-2013 Programming Period (million EUR, in 2004 prices)

Member Countries	Convergence Objective		Regional Competitiveness and Employment Objective	European Territorial Cooperation Objective	Total	
	Convergence	Cohesion Fund			min Euro	%
Spain	20 111	3 241	7 608	859	31 819	11.0
Portugal	15 455	2715	531	141	18 842	6.5
UE25	**174 151**	**53 639**	**49 004**	**11 581**	**288 375**	**100.0**

Source: European Commission, *Decision of 4 August 2006 fixing an indicative allocation by Member State of the commitment appropriations for the European territorial cooperation objective for the period 2007-2013,* No. 2006/609/CE, European Commission, *Decision of 4 August 2006 fixing an indicative allocation by Member State of the commitment appropriations for the Regional competitiveness and employment objective for the period 2007-2013,* No. 2006/593/EC, European Commission, Decision of 4 August 2006 fixing an indicative allocation by Member tate of the commitment appropriations for the Convergence objective for the period 2007-2013, No. 2006/594/EC.

Other regions, which do not meet the criteria of the Convergence objective, have access to the Regional Competitiveness and Employment objective with main two aims. The first lists strengthening competitiveness and attractiveness of European regions through development programs, which assist participation in global economic changes due to innovations and promoting the knowledge society, entrepreneurship, protection of the environment, and improvement of their accessibility. The second comprises increasing employment, adapting (retraining) the workforce, and human resources development [European Commission, July 2006],

Regions under the European Territorial Cooperation objective are cross-border regions or those, which belong to trans-national cooperation areas. Aspirations of this objective are to strengthen cross-border cooperation, integrate territorial and interregional development, and enable exchange of experience [European Commission, July 2006],

Conclusions

Spanish and Portuguese integration to the European Communitys was a giant step on the road to highly developed economy. Spain, being peripheral and economically backward in the past years, became a modern and competitive country. Integration to the EU structures forced Spain to reorganize and liberalize its economy.

Meanwhile the situation in Portugal seems to be different. Slow pace of structural changes in the Portuguese economy causes growth rates to be lower than in the Spanish case. Another disadvantageous factor caused by ineffective economy in the last few years has been not an increase of workplaces but a reverse effect - growth of unemployment rate. These problems are connected to traditional structure of the Portuguese economy, which narrowed possibilities of speeding up economic growth and creating new jobs. Therefore Portugal is the first of the “old” European Union Countries overtaken (in terms of GDP per capita) by new Member States - the Czech Republic, Slovenia and Cyprus.

To understand the difference of the economic situation in the analyzed countries it is worth looking back at the beginning of Spain’s and Portugal’s integration process into the European Union. Even before 1986 there were well-developed and industrial regions among Spanish Autonomous Communities. Moreover, Spain has a border with France, and those better developed regions were located close to that border. In the analyzed time almost all Portuguese regions were undeveloped and remote in relation to the main European markets. It is possible to believe that these well-developed Spanish Autonomous Communities were the main source of structural changes, and of speeding up the process of economic development. In Portugal, on the other hand, a lack of development centers was in favor of stagnation.

From the perspective of new Member States, economic changes which took place in the Iberian Peninsula are of great significance; its situation back then is comparable to the Central and East Countries’ situation today. Just like Spain and Portugal in the first years after accession, new Member States participate in a significant part of Community Structural Funds. We must remember that European funds obtained by thr Iberian Countries have played the role of the most important instrument, which determined economic development of these states. Structural aid, allocated to these two countries, is related to four structural funds - European Agricultural Guidance and Guarantee Fund, European Social Fund, European Regional Development Fund and Financial Instrument for Fisheries Guidance. Since 1993

Spain and Portugal have also become the beneficiaries of the Cohesion Fund. During the next programming period (2007-2013), three main objectives are supported: Convergence, Regional Competitiveness and Employment Objective as well as European Territorial Cooperation Objective. Among all EU members it is Spain which benefits from structural funds to the highest degree, also in the current planning period, but Portugal's share in Structural Funds has been and still remains at a very high level. European aid resulted in an increased economic development rate, increased scale of investment in infrastructure and, what is even more important, caused considerable unemployment reduction.

New Member States are facing the same choice as Spain and Portugal had to confront twenty years ago. Similarly to the two analyzed countries, the Central and East European states integrated to the European Union in 2004 with a huge amount of unresolved economic and social dilemmas. The years to follow will show whether structural evolution follows a path similar to that undertaken in Spain, allowing this country to be prosperous, or a path resembling the Portuguese one, with stagnation and lack of structural changes.

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