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Ireland and the Future of Europe: A Regional Perspective

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I. Introduction

Development in the European Union and regional development in Ireland are strongly linked, as much of the policy impetus and support for Irish regional development in recent decades has emanated from Europe, and Ireland continues to rely heavily on structural funding. Indeed, national development policy has evolved in parallel and in response to EU Regional Policy, so that Ireland's National Development Plan 2000-2006 (NDP) incorporates the Community Support Framework (CSF) for the EU Structural and Cohesion Funds. The future of regional – or what is often referred to as cohesion – policy is currently the subject of much debate in the EU. The framework for EU enlargement has now been established, and ten candidate countries will join the EU during the Irish presidency in 2004, with two others expected to join by 2007. The impact of enlargement has stimulated a review of the two main areas of EU expenditure – the Common Agricultural Policy (CAP) and cohesion policy (Structural and Cohesion Funds). CAP Policy for the period 2007-2013 has already been broadly agreed. Cohesion policy is certain to undergo major reform in the light of enlargement and the impact of the current programme.

The EU Commission has already initiated this debate, particularly with the publication of the Second Cohesion report in 2001 and two subsequent progress reports. The Third Cohesion Report, to be published at the end of this year, will set out a framework for regional policy for the period 2007-2013 sometimes referred to as ‘Agenda 2007’. Now, at the mid-point in the current programming period for the Structural Funds (SF), and as we await the Mid-Term Evaluation of the NDP and CSF, it is an opportune time to review the operation of the SFs and cohesion policy in Ireland and explore the problems and prospects for the Irish regions in the post-2006 programme.

This paper has a number of objectives. Firstly, we set out the broader context to regional policy in Europe by reviewing changes in the underlying conceptualisations of regional development and some of their possible implications for the scope and content of policies. Basically, what we see emerging is a form of ‘functional regionalism’ by which the roles of regions in the EU are being viewed primarily as instrumental in the collective economic functioning of the Union in a competitive global economy. As a consequence, there is an impetus to reformulate conventional EU regional policies, concerned with transferring resources to the least favoured regions and with strengthening economic and social cohesion. The primary concern now is to enhance the global competitiveness of all regions, including the economically stronger ‘core regions’.

Secondly, in looking back at EU regional policies to date, we draw attention to the fact that even the conventional SF policies were curtailed in the current programming period, and while progress with cohesion is reported at Member State level and the impact on Ireland has been positive, disparities between regions have increased. Thirdly, we consider some of the main development challenges in the BMW region and consider whether it is benefiting from Objective 1 status. We conclude that, on the basis of the evidence available to date, Objective 1 status appears to be making little impact on the BMW region. Finally, we review the main issues determining the shape of ‘Agenda 2007’ and consider the prospects for Ireland. We conclude that Ireland can no longer expect the EU to solve its regional problems, and that it is time to formulate a new regional policy conceived nationally and drawing on the lessons of 30 years of EU support. We also suggest a need for greater public awareness about the changes in European regional policy and their implications for Ireland.

II. Why Regional Policy?

Different rates of economic progress (or decline) in particular territories of national economies are not new phenomena. Nevertheless, the concept of the 'region' as a meaningful entity in the cause of furthering economic growth and sharing out the fruits of material and social progress among people living in all parts of a territory became increasingly relevant to public policy in the latter half of the twentieth century (OECD 1970: 9). Attention to problems on a regional scale is considered necessary due to negative factors such as poor natural resources, unfavourable geographic location, deficient infrastructures and economic decline. The need for a regional approach may also arise from the outcomes of economic development – such as the excessive geographical centralisation of economic activity, pressure on land resources, demands for new services and, of course, the widening of disparities between developing and undeveloped regions. Apart from addressing the negative and positive outcomes of change and development, regionalism can refer to new geographical scales of public administration, whereby responsibility for some functions is carried out at regional level (devolution). The latter should not be confused with the spatial dispersal of national administrative functions (decentralisation) or with the existence of regional offices for the local administration of national policies.

Regional development policies, if they are to be comprehensive, should:

1) not be confined to 'lagging regions' or to issues of core and periphery – however basic this dichotomy may be to regionalism;
2) recognise that economic changes across different types of regions are to some extent interdependent; and
3) exhibit different approaches within regions, reflecting not only variations in the broad socio-economic sense but also in their environmental, social and cultural contexts.

Why Intervene?

There are two fundamental sets of reasons for regional development interventions – socio-political and market-economic. Socio-political measures are, for the most part, based on equity considerations. Policies are formulated not primarily on the basis of market principles but in accordance with social values which set standards that are regarded as minimum requirements for levels of living in the contemporary society. In the case of public services, for example, equity relates to the provision of equal access, usually on the grounds that many such services are basic needs or rights that people should not be without, and that define social exclusion (NESC 1997: 211). Exclusion is, of course, a social policy issue but can also have geographical manifestations. To the extent that disparities in life chances and living conditions are modified across regions, political stability and social cohesion are preserved. A society's value system may also give rise to regional policies protective of environmental assets and/or cultural heritage.

In the EU, every Member State has a policy for transferring resources from prosperous to less prosperous regions, with the aim of creating or re-establishing a 'more balanced' distribution of economic activities and population over the national territory. The rationale for EU regional policy is contained in the Treaty of Maastricht, Article 130a, which states that "in particular the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas".

The market-economic approach to regional policy is based on ideas about market failure and the need for greater economic efficiency in allocating national resources. Market forces 'fail' in the sense that they do not oblige businesses to carry the full social costs associated with their locations. Firms, therefore, tend to locate in centres which will continue to expand beyond the optimum size – economically and socially. In essence, public authorities and citizens bear the costs of urban congestion, pollution, deterioration of the environment, crime, etc. Thus, policies of selective intervention seek to overcome identifiable market failures, and build on particular regional strengths. Intervention is justified on the basis of making the market more efficient, achieving a more socially desirable and economically optimal distribution of economic activities, and thus an increase in aggregate national welfare – beyond what would be attained if locations were determined solely by markets (Keane, Ó Cinnéide and Curtin, 1998: 7)[1].

III. Regional Policy: Shifts in Perspectives

Regional policy in European countries has evolved over time, with the emphasis shifting in accordance with the emergence of different theories about regional development, and as economies have become internationalised and implicated in global markets (see e.g. Artobolevsky 1997; Maillet 1997). Generally, the trend has been a shift from policies which aim to redistribute activities or resources, through external interventions, to those that attempt to stimulate regional potentials and/or create specific resources (through, e.g., innovation).

Maillet (1997) specifies four 'generations' of regional policies beginning in the 1960s. The first were essentially re-distributive and exogenous, characterised by direct productive investment through public enterprises, or public intervention in the capital of private enterprises, and also through incentives to attract external investment. When structural weaknesses in this approach became apparent – by the 1980s – a second generation of policies emerged. These aimed to create a new dynamic from within regional production systems by reconstituting the local economy and creating new products, processes, services or institutions. Additionally, emphasis was placed on establishing a favourable regional milieu to animate and support local entrepreneurs – through encouraging innovation, providing support for

[1] This is not an argument about 'fairness' but it is based on the desirability of achieving a spatial distribution that maximises national wellbeing.

financing, training, management and marketing, fostering opportunities for networks and partnerships, and cooperation between centres and local enterprises.

By the end of the 1980s, the globalisation of the world economy accentuated the concern with competitiveness. [2] Globalisation forces regional economies to compete with each other, thus intensifying the need for innovativeness, efficiency and to gain comparative advantage. In this context the 'innovative milieu' of a region assumes its full importance. There is a new focus on non-material resources and on invisible or intangible factors, including strategic planning, non-material resources such as know-how and market information, public-private partnerships, trust-based relationships and a degree of consensus, information relating to markets and technology, training and new financing channels (Maillet 1997: 17-18). This draws attention to the qualitative dimension of regional development and the link between successful regions and, for example, the existence of innovative firms, a skilled labour force, flexible public agencies and effective business networks.

Fourth generation regional policies, now taking shape, are based on a newer awareness of the conditions needed to foster a desirable milieu to support regional development in a modern services and knowledge-based economy. Production and application of knowledge are seen as crucial success factors in the global marketplace, and the growing service sector is linked to marketing (e.g. advertising, distribution), technology (e.g. research and development), management (e.g. finance, insurance), networking (e.g. communications) and information processing. Such a supportive milieu, it is argued, is based on a certain critical mass which is best (or only) provided by an urban network.[3]

[2] Generally understood as the ability to compete profitably in the marketplace.
[3] Maillet (1997: 21) is careful to point out that this is not to be confused with metropolitan development. Metropolitan areas, he suggests, monopolise a region's resources, develop for their own interest and provide little spin-off to their regions.

This thinking has clear connections with polycentric development models in the European Spatial Development Perspective (ESDP). The main objectives of the ESDP – a balanced and polycentric city system and associated new urban rural partnerships; parity of access to infrastructure and knowledge; sustainable development, prudent management and protection of culture – are underpinned by a rationale of economic competitiveness. In this context the region emerges as an increasingly important focus for development across Europe, and cities are seen as the driving forces of regional economic development within an increasingly competition oriented space economy (see ESDP 1999)

Storper (1995) has provided some useful insights on the characteristics of a supportive milieu for economic development in the globalised economy.
He argues that:

- there is a resurgence of regional economies despite the increased capacity to overcome the limitations of distance in transport and communications;
- this is because, in modern competitive conditions, 'untraded interdependencies' are essential and, to a great extent, are necessarily regionalised;
- these interdependencies consist of region-specific tangible and, more often, intangible features of the regional economy especially characteristics of the labour market, the configuration of public institutions, frameworks for collective action, 'conventions' or taken-for-granted practices for developing and communicating useful information ('the learning economy'), and region- specific assistance to firms;
- regions are to be regarded not as passive recipients of transfers, nor as expressions of the impact of external locational forces but as a source of the dynamics of modern production systems and thus as fundamental acting units in contemporary capitalism;
- the resurgence of regional economies is thus linked to – even

stimulated by – globalisation trends, as regions become locations for the coordination and specialisation of economic activities, in pursuit of competitive advantage.

These ideas are reflected in the European Commission's 'regions of knowledge' research initiative (launched in August 2003) which presents a vision of dynamic regions contributing to turning Europe into 'the most competitive knowledge-based economy in the world by 2010' (see CORDIS, 2003).

Some Implications of the Evolution in Regional Policy Perspectives

Assuming the brief review above captures the relevant theoretical thinking on regionalism in Europe, we may ask: what are the implication for regional policy and development in the European periphery?

Firstly, the concern with global competitiveness leads to the 'economisation' of regional policy. There is a tendency for the balance to be shifted from 'a socially-redistributive' model and towards the market-economic direction. Related to this is the changing role of the state. As economies, through their 'competitive regions'[4] integrate into the international marketplace, there is a shift from state intervention to develop and maintain a range of basic economic activities and a greater reliance on private provision. On this point NESC has noted, in relation to public utilities (telecommunications, water, energy, waste management etc), that there has been, in many countries, a gradual movement towards the introduction of competition in place of provision by state monopolies (NESC 1997: 152-154). The consequences of this deregulation are generally not distributionally neutral. Under state provision, service users in poorer regions do not bear the full cost as there is cross-subsidisation by other users. Competition is likely to bring changes more in line with costs, leaving users in certain regions to face higher charges or the withdrawal (or

[4] Reflecting Kirby's use of the concept of the 'competition state' which, among other features, prioritises international competitiveness over social development.

non-provision in the first place) of uneconomic services. The spatially uneven distribution of broadband telecommunications services in Ireland is a case in point (see WDC 2002)

Secondly, orthodox approaches to regional policy, based largely on the provision of general public goods (typically physical infrastructure), while necessary, cannot full deliver regional economic development. Referring to experiences in France and Italy, Storper (1997) is sceptical of any development strategy relying principally on the transfer of funds which treats targeted regions as recipients rather than drivers in the process of development. Outcomes will be limited unless supports are more specific to regional circumstances, and seek to mobilise autonomous capacities for collective action, foster the untraded interdependencies and develop a milieu supportive of regional economic development. In other words, competitiveness is based less on static comparative advantages such as endowment of natural resources and more on qualitative dynamic characteristics (Moussis 1997).

Thirdly, there is a major dilemma for the EU which, as Richardson (2000: 58) notes, is placed in the difficult position of competing as a global trading power while seeking to simultaneously secure balanced regional development across the disparate regions of Europe. As globalisation calls for the building of an open market and a competition-oriented spatial policy, economic and social cohesion may not be the main priority. The logic of global competition requires the continuing development of the prosperous core regions, and the emphasis on polycentric development even at the major city level[5].

Fourthly, a focus on the role of core regions and polycentric development means a strong urban bias in which cities are the motors of regional economic development[6]. However, the ESDP accepts the need to discard the outdated separation of rural and urban and, instead, to focus on functionally integrated regions in which urban areas and their hinterlands constitute 'partnerships', with diverse relationships and interdependencies (Richardson 2000: 62). For rural regions in particular, the importance of small and medium-sized towns is recognized. These ideas are adopted in the Irish National Spatial Strategy (2002).

We now turn to consider more specific trends and issues in the application of regional policy in the EU.

IV. Evolution of EU Regional Policy

While the 1957 Treaty of Rome established the European Social Fund (ESF) and the European Agricultural Guidance and Guarantee Fund – Guidance Section (EAGGF), there were no clear Community strategies for regional development. These began effectively in 1975 with the creation of the European Regional Development Fund (ERDF) as a specific measure to address regional imbalances in the Community. Since then, EU regional policy has evolved from a relatively small scale funding instrument to a system of major national transfers, operating as a significant EU policy in its own right (Bachtler, Josserand and Michie 2003: 5).

It is clear from Table 1 that Community financial commitments to regional policy have increased substantially over the past 30 years. Moreover, this evolution of regional policy has been accompanied by a co-ordination of Community policies, as well as a dovetailing of Community and national regional policies through setting priorities at European level and the formulation of Community-wide eligibility criteria and operational programme guidelines.

The real impetus for the 'Europeanisation' of regional policy came with the ratification of the Single European Act of 1987 and the prospect of the Single Market by 1992. Economic and Social Cohesion

[5] It may be worth noting here that the Irish National Spatial Strategy (DELG 2002) recognises the need to enhance the competitiveness of the Greater Dublin Area so that it continues to perform at the international level.
[6] It is accepted here that 'rural' does not equate with 'peripheral'.

within the Community was seen as essential to the completion of the Single Market and to the achievement of close economic integration and political union, so that the term Cohesion Policy is now frequently used instead of regional policy. An additional consideration was the need to improve the efficiency of policies and administration and to foster strategic approaches to regional development[7].

By the beginning of the new century the halving of the area eligible for priority Objective 1 status led to a substantial reduction in EU regional policy support to Ireland and to a reshaping of national policy, as we shall see below.

In the following section we consider the impact of EU cohesion policy, asking what has been achieved in Europe and especially in Ireland. Firstly, we look briefly at the impact on Objective 1 regions in Europe genenerally. Then we consider what has been achieved during the period when Ireland was a single region up to 1999, focusing first on the funding impact and then, briefly, on impact on practice.

The main phases in this evolution are set out in brief form in Table 1.

[8] This is not to say that complex bureaucratic procedures have been eliminated.

Table 1 Evolution of Regional Policy Measures

1975 – 1983	• ERDF grants to Member States to support industrial investment and local infrastructure projects • Eligible regions limited to those designated by Member States under their own systems of regional aids.
1984 – 1987	• Ninefold increase in ERDF • 1984 reform of the ERDF-initiated Community programmes, forerunners of present-day Community Initiatives (e.g. STAR programme for telecommunications).
1988 – 1992	• Wide ranging reform of the three Structural Funds (SFs) agreed in 1988, prompted by the accession of Spain and Portugal – which intensified regional disparities – and by the 1987 Single European Act • Change from individual project support to financing wide-ranging multi-annual programmes • Doubling of SFs between 1987 and 1993 • Support from SFs concentrated on five priority Objectives (three of which had Community wide application); Objective 1 – to promote development and structural adjustment of lagging regions • Eligible areas defined by Community-wide criteria e.g. GDP per capita of 75% of the Community average for Objective 1– all of Ireland defined as Objective 1 • Assisted areas account for 44% of the Community population • Increase in the number of Community Initiatives, which include INTERREG, NOW and LEADER.

1994 – 1999	• Major revision of SFs to broaden spatial coverage (52% of EU population) and scope of the measures • Six priority Objectives set out; changes to content and range of measures - all of Ireland designated Objective 1 • Maastricht Treaty affirms economic and social cohesion as one of the pillars of the Community; Cohesion Fund established for allocation to certain Member States including Ireland, to assist environmental and transport projects. • Financing from Cohesion Fund and SFs results in near doubling of commitments compared to previous programming period. • Funding accounts for 34% of EU budget compared to 46% for agriculture. • Simplification of programming procedures and tighter monitoring and evaluation obligations.
2000 – 2006	• Agenda 2000 Agreement led to reduction in the number of priority Objectives to three (including a merger of some previous Objectives). • Maintenance of resources at 0.45% of EU GDP and same proportion of EU budget • Spatial coverage reduced from 52% to 40% of EU population • Introduction of phasing-out principle, i.e. transitional status • More decentralised implementation and tighter monitoring and financial control • Continuation of Cohesion Fund but fewer Community Initiatives • Pre-accession funding for Candidate Countries. • Ireland – Objective 1 area reduced to 47% of land area of Ireland i.e. BMW region.[8]

[8] Ireland was divided into two NUTS II regions, one of which - the Border, Midland and West (BMW) Region - is designated as Objective1 with the remaining Southern and Eastern Region (S&E) designated as 'Objective 1 in transition'.

V. Impact of EU Cohesion Policy in Objective 1 Regions

Impact across Europe

The general effect of SF expenditure across Europe is regarded as being very positive. A detailed study of the impact of the Funds on Objective 1 regions during the 1994-99 period[9] found that:

- Between 1994 and 1999 more than two thirds of SF expenditure (i.e. €114 billon) was concentrated in Objective I regions. About 41% of the total allocations went to strengthening the productive environment (e.g. modernisation of enterprises, research and technological development or tourism), 30% was spent on infrastructure development and some 25% on human resource development.
- The increase in GDP levels in Objective 1 regions ranged from 1.4% to 4.7%.
- 800,000 jobs (gross) were created, including 213,000 jobs in Ireland.
- Regional access was improved by constructing and upgrading motorways and other roads.
- Over 8 million people received training, improving the EU's stock of human capital

As regards regional convergence, however, the Second Progress Report on Economic and Social Cohesion states that while the 'cohesion countries' continue to show progress at national level, disparities between regions have grown within member States (CEC 2003:8) The Report adds, that between 1995 and 2000, the spread of regional incomes per head around the average, increased in Finland, Sweden and Ireland. Regional disparities in unemployment rates remain pronounced, especially in some Member States such as Italy. Regions doing best in terms of employment are those with a relatively

[9] see EU Press Release 17/07/03

low share of employment in agriculture, a high level of employment in the services sector, a highly qualified population of working age, and high income levels (CEC 2003:11).

Impact on Ireland: Funding

Ireland has been a major beneficiary of EU regional policy for the past 30 years but particularly since the reform of the Structural Funds in the late 1980s. Details of expenditure under the Structural and Cohesion Funds covering the two programming periods 1989-1993 and 1994-1999, as well as details of commitments under the current National Development Plan 2000-2006 (NDP) are set out in Table 2.

Table 2 Structural Funds Programmes in Ireland

	1989-1993	**1994-1999 1999**	**Total 1989-1999**	**2000-2006**
		€ million		
National Development Plan (Total)	12,275	16,800	29,075	57,111
(of which) Co-financed Investment	8,339	10,383	18,722	7,680
(of which) Structural/ Cohesion Funds	3,672	6,921	10,593	3,739
Co-financed as % of Total	67.93	61.80	64.39	13.45
Structural/Cohesion Funds as % of Total	29.91%	41.20%	36.43%	6.55%

Source: Bennett and Collins (2003).

Between 1989 and 1999 Ireland received €10.6bn in Structural and Cohesion funding and can expect to receive a further €3.7bn from the current programme (EU co-financed part of the NDP) by the end of 2006.

These monies are considered to have been spent wisely in Ireland which, on the basis of the SF's contribution to the performance of the economy during the 1990s, was singled out as an example of 'good practice' by the EU Commission in the Second Cohesion Report (CEC 2001). The ESRI has estimated that the cumulative impact of co-financed investment under the two National Development Plans 1989-99 was to raise Ireland's GNP level by two percentage points and that the employment impact was also very positive. The overall outcome, of course, was that during the rapid economic growth in the 1990s, as a single region Ireland exceeded the threshold for Objective 1 designation.

However, these Structural Funds Programmes had little impact in reducing regional divergences within Ireland, relative to either the EU or the state average; in fact such divergences appear to have increased. By the mid-1990s, it was very evident that despite the pattern of economic growth, regional imbalances persisted and were growing in relative terms. Gross Value Added (GVA) per person in the BMW region, **when measured against the EU average,** was 31 percentage points below the S&E region in 1995, but the gap had widened to 42.9 points by 1999. When measured against the **state average,** the divergence in GVA per person between the BMW and S&E regions in 1995 was 33.7 points. By 1999 this had widened to 38.3. The BMW region contributed 19% of the national total GVA in 1999 while the S&E contributed 81%. Clearly there are substantial differences between the two regions in their basic capacity to contribute to, and benefit from, economic growth.

For the current programming period 2000-2006, there are two important points evident from Table 2 above: firstly, the drop in the **amount** of EU co-financed funding for the current seven year funding period (due largely to the loss of Objective 1 status for the S&E region), and secondly, the sharp drop in the **share** of Structural and Cohesion Fund co-financing in the current NDP. By and large the main source of funding for achieving balanced regional development in Ireland is now the national exchequer. We return to this issue below, but first turn briefly to some of the impact of EU cohesion policy on regional development practice.

Impact on Ireland: Development Practice

Apart from money transfers from Europe, Structural Funding can also be said to have a number of other positive impacts which are associated with the way in which EU-funded programmes are designed and delivered.

- The EU requirement for multi-annual programmes with quantifiable targets drawn up and managed in partnership with national governments and regional and local authorities has given a much more strategic focus and coherence to national and, (since 1999), regional planning. A key objective of the NDP is 'balanced regional development' and the National Spatial Strategy has set out a twenty-year strategic framework by which this might be realised (see O'Hara, 2002).
- EU requirements regarding programme design, accountability, monitoring and evaluation have underpinned an ongoing process of improvement in public administration, including the provision of better quality data to allow measurement of the impact and outcomes of policy measures.
- Structural funding has been able to stimulate or 'lever' other funding sources both public and private.
- The EU emphasis on devolution and the insistence on the involvement of regional and local authorities has led to the creation of regional structures such as Regional Authorities (1989-93) and the BMW and S&E Assemblies (2000-2006) to oversee the operational programmes, but public administration in Ireland remains quite centralised and regional bodies have very limited powers.
- The emphasis on partnership and consultation has drawn a range of interests into the policy-making process at regional

level, and stimulated a general move to greater coherence and avoidance of duplication in practice.
- Community Initiatives such as LEADER, INTERREG, EQUAL and URBAN have supported ‘bottom up’ development initiatives, stimulated social and economic innovation, facilitated local and international networking and generally had an empowering effect on target communities.
- The requirement to promote gender equality and sustainable development has meant that equality and environmental policy principles are incorporated into programme planning and evaluation.

It is clear that EU cohesion policy has brought substantial benefits to Ireland, both in helping to finance key investment programmes (particularly in human resources, and the productive environment sectors) and in promoting strategic and innovative approaches to a range of issues, as well as in the design and delivery of programmes. However, the economic performance of Ireland as a single region masks very significant and apparently widening disparities between the two NUTS II regions and within them (e.g. see WDC 2001). The designation of the BMW region as Objective 1 in the current programming period represents a chance to address these. The current NDP contains four inter-regional operational programmes and a regional operational programme for the BMW and S&E regions. These operational programmes provide for expenditure on regional infrastructure, the productive sectors and social exclusion as well as the establishment of regional assemblies for each region to be the managing authorities for the regional programmes.

In the next section, we summarise features of the BMW region and ask whether Objective 1 status is benefiting the region. The focus is on the following areas: support to industry; research and innovation; tourism; transport and telecommunications infrastructure, and regional aids.

VI. Is Objective 1 Status Benefiting the BMW Region?

The BMW Region is sparsely populated and essentially rural in character, with only 32% of its population living in towns or cities of more than 1,500 people (the national average is 58%). It has a high dependence on agriculture, low population density, weak urban structure and low human resource and knowledge base due to a persistent brain drain and associated limited research and innovation capacity. The key regional indicators set out in Table 3 below illustrate this.

Table 3 Regional Indicators for EU, Ireland and NUTS II Regions

Indicator	EU(15)	Ireland	S&E	BMW
Employment in agriculture, 2001 (%)	4.1	7.0	5.3	12.0
Population density, 2000 (persons per km2)	118.7	54.1	75.6	30.1
Patent applications per million inhabitants (average 1998-2000)	140.1	70.8	80.8	42.1
Educational status (persons aged 25-29 with low educational attainment), 2001 (%)	34.2	38.5	36.0	46.2

Source: Second Progress Report on Economic and Social Cohesion, European Commission, January 2003

While there are relatively high dependencies on natural resource based productive sectors such as agriculture, the marine and forestry, opportunities for growth are limited. However, there is considerable potential for tourism development (see WDC 2000). In addition, the

BMW region has a weak industrial structure characterised by a concentration in traditional, low value-added sectors. Net output per employee in the BMW region in 2000 was just 57% of the national average. Employment in IDA[10] assisted companies declined by 5% in 2002. There has been a decline in employment in companies assisted by Enterprise Ireland (indigenous) since 2001 of 1,234 (3%)[11].

While children raised in the BMW region have high levels of educational attainment, many move from the region, leaving a major human resource gap. The region's research and technology capacity is weak and has a limited capability to attract research funding or 'knowledge-based' industries. Many of the indigenous firms are based in the traditional manufacturing sectors such as natural resources, food, engineering etc, and are not as research intensive as firms in other sectors.[12]

As a result of decades of under-investment in the BMW region, there are weaknesses in transport, telecommunications and energy infrastructure that are now major inhibitors of development. The IDA, Enterprise Ireland and other agencies strongly link the difficulty of attracting inward investment, the poor performance of industry and of growing 'high potential' start-up businesses to the serious infrastructure deficit.

For the BMW region, there are two main potential benefits to Objective 1 status. The most obvious is the flow of extra funding to the region but also very significant is the fact that Objective 1 status allows the payment of higher levels of state aid[13]. In practice this means that the state can discriminate positively in favour of the region by providing higher levels of, e.g., grant aid or tax advantages to make investment more attractive.

[10] Industrial Development Authority which operates incentive programmes for foreign direct investment.
[11] Forfás Employment Survey 2002. Data refer to permanent full-time employment only.
[12] Research & Development in the Business Sector 1999, Forfás, May 2002.
[13] State aid provision is regulated by EU competition rules. State aid involves the payment of aid or giving of financial advantage and arises mainly from provisions in the NDP 2000-2006.

Making any real assessment of the benefits of Objective 1 status is extremely difficult at this time. The mid-term evaluation of the NDP and the Community Support Framework 2000-2006 (CSF)[14] is due for completion at the end of October 2003, and, at the time of writing (mid-September), none of the evaluations of individual Operational Programmes is available. In any case, given the relatively low share of NDP funding accounted for by the CSF, disentangling the impact of EU and Irish Exchequer funding is well beyond the scope of this paper. What is clear from the discussion above is that the development gap between the two regions is considerable, and that the BMW region faces a very particular set of development challenges. Notwithstanding these difficulties, by drawing on reports to the various Monitoring Committees, it is possible make some provisional assessment of impact so far, by examining regional expenditure in key priority areas in the first three years of the operation of the NDP/CSF, i.e. 2000-2002.

Strengthening industry

Expenditure on support to industry in the BMW region had reached just 41% of projected target by the end of 2002.

- Programme spend on support to indigenous industry in the BMW region was just 47% of forecast whereas the S&E region had a spend of 85% of forecast.
- Support to foreign direct investment in the BMW region was just 15% of forecast, compared to 55% in S&E region.
- The NDP target for 2006 is that 50% of all IDA supported 'greenfield' jobs in Ireland will be located within the BMW region. In 1999, approximately 25% of all new greenfield jobs went to the BMW region and in 2000 the BMW share rose to 36%. In 2001 the share rose further – to 42%, and in 2002 it remained static at 42% (see Clohessy 2003).

[14] Funding arrangements agreed with the European Commission

While it is likely that these disappointing results may in part be explained by lower demand, the performance to date suggests a need to re-evaluate the support programme and especially the criteria used for approving projects in the BMW region.

Addressing the knowledge deficit – supporting RTDI

Support to the RTDI (Research, Technological Development and Innovation) measure in the NDP is distributed across seven sub-measures. It is designed to stimulate research activity and enhance innovation capacity. The regional economic imbalances that exist can be countered by developing the RTDI outlooks of industry and institutions and by fostering linkages between them to commercialise research knowledge.

Table 4 RTDI Priority Expenditure 2000-2002

RTDI Measure	BMW Region		S&E Region	
	% of forecast	€m	% of forecast	€m
Total RTDI	22	84.4	65	413.9
Education	33	21.6	76	130.9
Industries	12	33.9	33	228.8
Agriculture	42	4.3	134	20.3
Food	12	0.8	120	14.1
Marine	101	22.0	82	10.1
Forestry	1	0.3	100	3.1
Environment	50	1.8	52	6.5

Table 4 above includes some detail on the level of spend across each of the measures by region. With the exception of the Marine measure, the forecasted spend under each in the BMW region is extremely low and on only one measure, the Environment, reaches 50% of the allocation for the period. Apart from the Marine, the programme spend has been much higher in the S&E region. Overall, NDP expenditure for 2000-2002 on RTDI in the BMW region is only 22% of forecast, compared to 65% for the S&E region.

Expenditure on research and development is essential in building future capabilities. In the light of the weak positioning of industry in the BMW region, lack of engagement in significant R&D activity points to weaknesses regarding both the R&D outlook of firms and their capacity to innovate.

Supporting tourism

With the exception of angling projects, there has been no NDP expenditure on tourism in the BMW region. The existing Tourism Measure appears inappropriate to the tourism needs of a predominantly rural region. The emphasis is on funding large-scale visitor attractions and networks of attractions through encouraging clustering among providers. It would seem more appropriate to encourage projects that are scaled appropriately to the areas in which they are proposed and that encourage the dispersal of tourists within the region.

Investing in transport infrastructure

The provision of economic and social infrastructure is essential to achieving balanced regional development. This may be necessary ahead of demand – as acknowledged in the NSS – in order to make lagging regions more competitive. Poor performance of the productive sectors in the BMW region is strongly linked to the serious infrastructure deficit. The development agencies (IDA, EI, Shannon Development and Údarás na Gaeltachta) point out that the poor quality of much of the economic and social infrastructure within the BMW Region reduces greatly the attractiveness of the region to investors. Inadequate transport infrastructure, which makes access to destinations in the region difficult and inefficient, is a key issue.

NDP expenditure on the national roads programme to the end of 2002 reached only 69% of budget in the BMW region, but was 138% of budget in the S&E region. The majority of expenditure on road projects to date has gone to national primary roads in the Dublin area and the Major Inter-Urban (MIU) routes, most of which are outside the region. An evaluation of progress and management of investment in roads under the NDP (Fitzpatrick Associates 2002) found that, to the end of 2001, only a quarter of the 53 major BMW projects on national primary roads were in the construction or completion phases.

Enabling the rollout of advanced telecommunications infrastructure

The NDP measure which assists the provision of advanced communications, digital and e-commerce infrastructure and services, was allocated a total co-financed public expenditure of over €141 million (including ERDF funding of over €46 million) with the aim of ensuring that the benefits of the emerging new economy are evenly spread across regions. It is recognised that public support is essential to fill the gaps in telecommunications infrastructure and services, and funding is intended to stimulate investment in, and accelerate the development of cost competitive, broadband telecommunications infrastructure and services.

Under the first round of NDP funding, allocated in January 2001, projects in the BMW region were awarded grants totalling €55 million. However, only €21m had been expended by end 2002, which is just 15% of forecast. Much of the delay is due to a global slowdown in telecommunications investment which has led to the closure of some companies and major contractions in the investment programmes of those who survive. Regulatory difficulties have also delayed rollout. The net effect is that many parts of the BMW Region do not have access to broadband services.

From this brief review of expenditure in key areas over the first three years of the NDP, it is clear that the rate of expenditure on measures aimed at addressing key sectors in the BMW region is very considerably under target. The reasons for this may range from the unsuitability of the measures themselves, lack of absorptive capacity in the region for the measures available, administrative delays and other unanticipated factors. For the most part, the measures were conceived nationally and operate in the same way in both the regions except that in some instances higher grant aids are available in the BMW (see section that follows). This indicates a kind of 'functional regionalism' by which policies are conceived nationally and delivered regionally, having regard to broad objectives of 'balanced regional development' but with insufficient regard to the particularities of the socio-economic circumstances of regions themselves, not to mention intra-regional difference which we have not dealt with here, but which are very considerable. In western counties, for instance, the development problem associated with congestion and rapid urbanisation being experienced by Galway is distinctly different from those counties made up of mainly small centres and predominantly rural economies (see e.g. WDC 2001).

State aid levels

As pointed out above, Objective 1 regions are permitted preferential levels of state aids according to EU competition rules. In practice this has meant that state aid, whether part of the NDP or otherwise, can be higher in the BMW region. For instance, grant aid for industrial investment can range from 40% to 55% for small and medium-sized enterprises in the BMW compared to 20-40% (depending on location) in the S&E. The maximum grant available under Enterprise Ireland's recently launched Competitiveness Fund is 45% in the BMW compared to a maximum of 35% in the S&E (and 25% in Dublin). Eligibility thresholds are also lower in the BMW region.

Depending on circumstances, state aid of up to 75% of cost is permitted. However, this level may not be available in practice. In the case of non-EU co-funded support, there will be an inevitable tendency to keep state aid levels as low as possible, thus diminishing the stimulus for investment in poorly endowed regions, where matching funds may not be easily available. On the basis of the wide disparities set out above, it would appear that the differential between regions would need to be much wider than at present to offset the considerable handicaps that must overcome in lagging regions.

VI. The Future – Issues for EU Cohesion Policy Post 2006

The next phase of EU cohesion policy will not commence until 2007 but it will be dominated by the enlargement of the Union. The addition of ten new Member States will present an unprecedented challenge for the competitiveness and internal cohesion of the Union. The gap in GDP per capita between the 10% of the population living in the most prosperous regions and the 10% living in the least prosperous regions will more than double that in the existing EU15[15] (CEC, 2003:2).

The population of the new Union will increase by 28% and the surface area by 23%, while aggregate GDP will rise by only 4-5%. Importantly, average per capita GDP will decline by around 13%. GDP per capital in the new Member States is around 39% of the EU average so that these countries present a huge ‘cohesion challenge to the Union. Because of general economic growth and the ‘statistical effect’ of the fall in average GDP, Ireland will rank among the richest member States of the new Union. Strong growth in Ireland in 2001 pushed GDP per capita to 118% of the EU15 average – having been at only 64% in 1988.

At this point following the publication of a series of reports, briefings from officials, and the outcome of recent EU Council meetings (see Bennett and Collins 2003), there appears to be broad agreement on the following issues.

- Economic and Social Cohesion will remain as one of the pillars of the Union but its objectives may be redefined. Re-

[14] From 2.1 to 1 (EU15) to 4.5 to 1 (EU25)

nationalisation of Cohesion Policy (i.e. that regional policy, apart from Objective 1 regions be the responsibility of each Member State), as suggested by some Member States, does not have widespread support. As opposed to a simple budgetary transfer to lagging regions, the principle of cohesion has been shown to assist convergence and to support political integration. Cohesion Policy is also seen as an effective means of underpinning EU 'horizontal policies' regarding equality of opportunity, environmental sustainability, the information society etc. It is also seen as an important means of promoting new forms of governance in Member States that are based on principles of partnership and subsidiarity.

- There is broad consensus on the need to concentrate funding on the least developed regions because of the wide disparities in the enlarged Union, and because these regions have the most urgent needs in physical and human capital and infrastructure, and will comprise about one quarter of the population of the EU25.

- The threshold of 0.75% of GDP per capita will remain as the criterion of eligibility for Objective 1 status. The BMW region will therefore no longer qualify on economic growth grounds. But about 5% of the EU population will be in Objective 1 regions that lose eligibility due to the 'statistical effect' (of the fall in average EU GDP) and these regions will need a fair solution to support their efforts to converge. For regions (such as BMW) no longer eligible because of economic growth, there is a commitment to finding appropriate arrangements to sustain their growth momentum.

- The question of whether there should be actions outside of Objective 1 regions has been subject to considerable debate. In some Member States, there is concern about the budgetary impact of such actions, and whether re-nationalisation is a better option. This perspective is linked to the view that responsibility for addressing regional disparities lies primarily with Member States, especially in the case of those relatively rich members. At the time of writing, a clear majority appear to be in favour of thematic rather than geographical targeting for such regions which can respond to economic issues associated with regional and urban restructuring. Suggested themes include innovation, employment, the knowledge society, sustainable development, urban problems, improvement of competitiveness and social cohesion. There is also agreement that cross-border and trans-national co-operation should continue but that there is a need to simplify the implementation procedures.

- A key issue concerns the division of responsibilities between Member States and the EU Commission. There is a clear need for simplification of procedures and a strong view from many quarters that there needs to be more decentralisation/devolution (see, for example, Committee of the Regions – Leipzig Declaration, May 2003). Issues which arise in this context include how to resolve the tension involved in giving Member States more control while the Commission has responsibility for the execution of the budget (Article 274 of the Treaty); the nature of the agreements with Member States and the parties involved; and whether allocations should be linked to results.

- There is no agreement as yet on the budget for Cohesion Policy, but it is likely that the current budget of 0.45% of Union GDP would be considered a minimum and that two-third of the budget will continue to go to Objective 1 regions.

- Finally, a number of other policy areas are relevant to regional development – competition policy regarding state aids for regional development, research transport, and RTDI policy and the Common Agricultural Policy which accounted for more than twice the amount of Structural Funding to Ireland in 2002. The recently agreed CAP reforms will make more funding available for rural development and the measures involved could make a significant contribution to cohesion. But it is unlikely that the two funding mechanisms for rural development under the CAP (Guarantee and Guidance sections of CAP) will be merged into one Rural Development Fund. Despite the progress made in giving the CAP a territorial dimension (e.g. through the less favoured areas measures) and the rhetoric about rural development as the CAP's so-called second pillar, Community rural development policy is still largely orientated to agricultural restructuring, divorced from regional development.

VII. Issues for Ireland

During 30 years of European regional/cohesion policy, Ireland has benefited from substantial transfers of resources and is considered to have used them effectively to accelerate national development. However, the impressive performance of the Irish economy was accompanied by widening disparities between the two NUTS II regions during the 1990s. The period 2000-2006 has seen a substantial fall in SF transfers to Ireland. This has meant an effective re-nationalisation of Irish regional policy whereby Structural/Cohesion Funds are projected to account for less than 10% of the NDP budget. While the balance may differ in practice, of course, as targets for exchequer spending may not be achieved, the bulk of expenditure directed to achieving 'balanced regional development' will come from the national exchequer.

Moving towards more balanced regional development essentially means altering the spatial distribution of economic growth and development. Apart from reducing regional disparities, development of lagging regions can alter the spatial distribution of growth away from congested areas and thus lessen the economic costs associated with capacity constraints. These costs include increased travel times and traffic congestion, high prices for housing and other services, and skills shortages. As we have shown in this paper, there is little progress towards convergence; in fact the evidence of NDP expenditure to date suggests that the BMW is making little, if any, progress and may not have sufficient capacity to benefit from NDP programmes as they are currently constituted. On the basis of the limited progress in the first three years, it may be that Objective 1 status will eventually make little impact on the BMW region.

All of this points to the necessity for adjustments to regional policy in the light of the results of the NDP Mid-Term Review. More fundamentally, it is clear that Ireland cannot expect the EU to solve its regional problems. There is a need to begin work now on a reformulation of Irish regional policy for the post-2006 period which can give effect to the broad strategy set out in the National Spatial Strategy, and articulate a clear set of actions for different regions. A new national regional policy should be based on the lessons learned from monitoring and evaluation and on a clear understanding of what works and what does not.

From a European perspective, there are several key issues for Ireland.

- **Loss of Objective 1 status**
  The BMW region will lose Objective 1 status after 2006 and it is not clear as to what, if any, 'phasing out' arrangements will be put in place. There may be special transitional arrangements, but it appears more likely that cohesion policy for regions outside of Objective 1 (i.e. Objective 2) will apply. It is important to ensure that the concerns of regions like the BMW can benefit from whatever thematic priorities are agreed.

- **Implications for state aids**

The loss of Objective 1 status could have a major impact in terms of Regional State Aid Regulations if this meant a loss of comparative advantage in the levels of aid payable in the BMW region (and in some parts of the S&E). Even at present levels, the difficulties of attracting investment are considerable and it would appear that the differential between regions would need to be much wider than at present to offset the infrastructure and other handicaps which beset the region.

- **Linking regional and rural development**
  Given the rural nature of Ireland's lagging regions, it is desirable that there be much more congruence between the rural development 'pillar' of the CAP and regional policy. Even if the detachment between cohesion and rural development policy persists in Europe, there is a strong argument for a more coherent approach at national level. It is also important to build on the momentum created by EU support for endogenous or 'bottom up' development in rural areas (e.g. LEADER) with appropriate national programmes.

- **Preserving what has been gained**
  We outlined earlier many of the positive outcomes of EU cohesion policy for development practice and it is important that these be preserved and mainstreamed into practice. These include good governance (e.g. improved administrative practices, monitoring and evaluation, partnership structures), multi-annual programmes and innovative actions. But there are also many less tangible benefits associated with EU support for concepts like locally-based development and cross-national alliances which create networks of development knowledge and promote social inclusion, particularly in the context of locally-based-development. Continued links to European cohesion policy will be important in ensuring that these practices as well as horizontal commitments to social

inclusion, equality and environmental sustainability continue to be valued.

- **Stimulating public debate**
  There has been relatively little public debate about the issues discussed in this paper. We are now facing into a period of intensive activity regarding EU cohesion policy: the IGC on a new Constitution will begin in October; the CSF Mid-Term Evaluations should be completed by the end of 2003; the Third Cohesion Report which will contain proposals for cohesion policy from 2007 will be published in December; and Ireland will take over the Presidency of the EU in January 2004. The ramifications of loss of Objective 1 Structural Funds, a more restrictive state aids regime and major restructuring of the CAP on Irish regions present considerable challenges for Ireland. It is desirable that debates about the future of regional policy be at least as vigorous as those which preceded the current programme.

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