

# THE IMPACTS OF PUBLIC POLICIES FOR REGIONAL DEVELOPMENT IN PORTUGAL

## OS EFEITOS DAS POLÍTICAS PÚBLICAS PARA O DESENVOLVIMENTO REGIONAL EM PORTUGAL

*Teresa de Noronha*

### ABSTRACT

The major goal of this work is to evaluate the level of effectiveness of those efforts made by the European Commission towards the socio-economic cohesion in Europe by using the single case-study of Portugal.

This paper presents the long lasting efforts for regional development in the country by using some data that reports the received aids and their use from 1990 up to 2006. The analysis focuses on the desegregation of such data to regional level.

At the same time it is emphasised that, at a time when cohesion is no more the sole goal of European policy, Portugal faces the paradox of trying to raise regional capacities for global competition (without having yet defined what regional strategies are) and, at the same time, wishing to increase its potential scientific and technological capacity, mainly located in the very circumscribed areas of Lisbon and Porto. In order to illustrate such a situation, the exemplar case of the Programme PRIME was presented.

This is one of the best examples of the recent support a system, indirectly financed by European funds; PRIME was fully structured as a Portuguese policy instrument to support the modernization of the entrepreneurial tissue at national level. The provided data demonstrates how discussable the level of success of such programme is.

Our general conclusions will drive to a dual discussion: the asymmetric use of the financing systems provided by the E.C. and the north/south endemic dichotomy existing in the country generates a path dependency that does not reduce and a trend that should concern Portuguese policy makers deeper than it does.

**Keywords:** public policy, regional development, regional asymmetries, Portugal

### RESUMO

O principal objectivo deste trabalho é avaliar o nível de eficácia dos esforços feitos pela União Europeia para a coesão socioeconómica da Europa, utilizando o caso de estudo de Portugal.

A investigação apresenta os esforços de longo prazo para o Desenvolvimento regional do país observando dados que reportam as ajudas recebidas pelo país entre 1990 e 2006. A análise enfatiza a desagregação desses dados a nível regional.

Simultaneamente, num momento em que a política de coesão já não é prioritária na política Europeia, Portugal enfrenta o paradoxo de ter de tentar aumentar a capacidade competitiva das suas regiões ao mesmo tempo que tem de ser capaz de melhorar o seu potencial científico e tecnológico (quase centrado nas regiões de Lisboa e Porto). O caso exemplar do programa PRIME é apresentado para ilustrar esta situação.

Este programa é um dos melhores exemplos do sistema de incentivos, indirectamente financiados pelos fundos Comunitários; o PRIME foi totalmente estruturado como um

instrumento de política de apoio à modernização do tecido empresarial a nível nacional. Os dados demonstram o quão discutível é o sucesso deste programa.

A nossa conclusão promove uma discussão dual: a utilização assimétrica dos sistemas de financiamento disponibilizados pela C. E., bem assim como a dicotomia endémica norte/sul existente no país, geradora de tendências de longo prazo que deveriam preocupar mais os políticos Portugueses do que preocupam.

Palavras-chave: política pública, desenvolvimento regional, assimetrias regionais, Portugal, financiamento Europeu.

JEL Classification: R12, R52, R58

## PREAMBLE

In 1988, soon after the first reform of the structural funds (ESF, ERDF), four major orientations draw the future actions for regional development across Europe:

- Concentration in specific regions and particular actions;
- Partnership at different governance levels (local, regional, national);
- Application on strategic planning basis;
- Possibility of additional financing at the different levels.

The application of these four major orientation principles advanced towards the flexibility of the European regional policy by type of regions and adequate instruments: Objective-regions and correspondent different proposals for regional strategic development have been identified - a first step of EC towards the implementation of a serious policy for regional development.

Over time, and in spite of significant efforts for growth and development, still certain peripheral regions keep gapping showing local inefficiencies in the use of the multiple European aid systems. General bottlenecks have been recognized: restricted entrepreneurial capacity, lack of agglomeration economies, weak accessibilities, and need for networking systems either to communicate or cooperate.

Most of such areas locate in the rural world where, besides the various regional policy measures, also the CAP might have had a fundamental impact on the use of agricultural prices to push further development roots. However, CAP protectionism did not serve this proposal exactly. In the context of the *Cork Declaration (1996)*, the *Agenda 2000* took years to integrated effectively regional and rural development policies. Indeed, only in 2003, with the new CAP reform, some fine-tuning was expected in order to take advantage of the specific regional attributes.

Finally, and in our view, inseparable from the goals for the development of European regions, the prospects on rural development have been traced (2006/144/EC) by the EC for the period 2007-2013 as following: "... *The strategic orientations must reflect the multifunctional role that agriculture accomplishes in the wealth and diversification of landscape, in the food production, in the cultural and natural heritage of the whole European Community*".

But cohesion has not been the sole goal of European policy and its decision makers: *Lisbon Agenda*, in March 2000, defined the goal of making EU the strongest and most competitive economy by 2010. Thus, it can be understood that the need to increase regional capacities for global competition has defined a clear European wish to increase its potential scientific and technological capacity. This overwhelming goal, challenging the recent European

development trends, may hide a major paradox between the scientific-technological push and the regional-social cohesion.

In fact, the application of the R & D policy brings to Europe the preference to those regions able to produce high-tech industries; Also, as the cohesion goals have led to a considerable aid to scientific research, the correlations between the resulting technological advances and the expected regional development for peripheries are still to be investigated. Frequently public policies for regional development, implemented to increase the competitiveness of regional skills, come across targets for technological modernization, at national level, that may strongly prejudice regional policy results at local level.

So that, one may ask:

How can public policy provide those factors necessary to speed development, particularly in European periphery? Hindrances such as locational disadvantages, lack of structural adjustments, need for political coherency at different governance levels should be clarified;

Or, how far are the real outcomes for locals and regions from the very initial European intentions? An analysis of the effective cooperation capacity within the governance system should be investigated;

Or, even, how effective is the European regional policy when crossed with other European policies (exp: European innovation policy) at both national and regional levels? A list of possible negative externalities resulting from the difficult cooperation among the different political goals;

## **1. PORTUGAL AS A CASE STUDY**

The previous discussion has deeply marked most of the effective regional development of many European regions, since the early nineties. In Portugal and after more than 20 years exercise in the application of a complete package-scheme of European supports, the country may well serve as an example to evaluate the level of success of the European funds to national and regional development proposes. In fact, most of the results are asymmetric by sector and region and some best practices are detected. But also, some bottlenecks and non-operational results were identified.

At present, Portugal – small yet a diverse country, with weak growth and limited public spending capacity – is marked by a long tradition of centralised governance and no elected regional level. Still, it may be considered a credible case study to illustrate the paradigm shift in regional policy:

- From subsidies targeting the reduction of regional disparities into investment supporting regional opportunities, in order to enhance territorial competitiveness;
- From different sectors approaches to multi-sector place-based approaches;
- From a dominant role of certain levels of government to multi-level governance involving co-ordination of national, regional and local with different stakeholders.

This paper provides an overview on the country's most recent efforts for regional development in comparison to its growth trends. Then, the discussion follows towards a microscopic view on the of the very specific aid programmes: PRIME – support to firm development, directly promoted by national entities using the structural and national funds.

## **2. THE TERRITORIAL AND INSTITUTIONAL FRAMEWORK OF PORTUGAL**

Historically born from the implementation of the EU Structural Funds, Portuguese regional policy is currently going through a complex transformation process. Based upon the EU's so-called renewed *Lisbon Agenda*, it faces new political challenges to achieve competitiveness

objectives such as understanding innovation in a broader sense than scientific and technological innovation: No doubt that there is an emerging need for place-based policies to ease the production and diffusion of knowledge in different specific regions.

The country population is of 10.6 million people (2006) from which 50% is living in PUR regions, 24% is living in IR and 26% is living in PRR.

There is a centralised government with no formal regional level of governance composed by a Ministry for Environment, Spatial Planning and Regional Development, in charge of regional policy. He has authority over the Financial Institute for Regional Development (IFDR), which was previously named the Directorate General for Regional Development (DGDR) and represented at regional level by Co-ordination and Development (CCDR). Notwithstanding, the country has no formal regional level, except for two autonomous regions in the islands of Azores and Madeira.

The territory is divided into:

- 5 mainland regions: Norte, Centro, Lisboa, Alentejo, Algarve;
- 2 autonomous regions;
- 18 mainland districts, endowed with operational competences in security and civil protection.

It should also be added that the local level in Portugal has little to do with the environment of regional policy: 308 municipalities, with a municipal assembly, a mayor and an executive council elected every four years. Their main responsibilities are related to the management of collective equipment and basic infrastructure.

### **3. WHERE DOES PORTUGAL STAND TODAY AND WHERE DID IT COME FROM?**

As shown below in Tables 1 and 2, between 1994 and 2006, Portugal has received a total of about 38 b € from the EU, twice phased: between 1994-1998, 16.3 € and between 2000-2006, 19.7 €. Lisbon and North, those regions where the two main Portuguese towns are located, received by far most of the European aids.

#### **The period 1989-1999 – a brief approach**

From 1988 to 1993, the level of convergence of GDP<sub>pc</sub> increased significantly from 53% to 73%. It is estimated that 40% of this increase was a result from the investments occurred from the structural European funds. In Table 3, macro-economic data is provided to show that significant increases in convergence may be detected for most of the significant variables. Still, public sector debts, trade balance, openness of the economy to the exterior kept almost unchanged or aggravated during the period.

In spite of being featured by a positive macroeconomic evolution the situation of the Portuguese economy during the period comprehended by the previous Community Support Framework (1988/1999) continued to suffer from an insufficient pace of productivity convergence, caused mainly by the persistence of a specialization pattern with a predominance of low technological intensity products and processes, defective organizational capacities and slightly high levels of human resources qualifications.

In a first period of observation, from 1988 to 1993, the analysis of the macroeconomic indicators disaggregated for the 5 Portuguese regions (Annexe A) indicates very slight alterations in the deviations of the regional GAVs and GDPs concerning the national average.

**Table 1**  
Executed Public Expenses by Fund (1994-1998)

Unit: 1000 PTE

≈ 10 <sup>9</sup> €	Norte	Centro	Lisboa e Vale do Tejo	Alentejo	Algarve
ERDF	504.943.005 (84%)	297.977.663 (82%)	748.513.280 (93%)	95.827.635 (65%)	57.254.995 (67%)
FEOGA	91.978.506 (15%)	56.956.948 (16%)	49.384.329 (6%)	51.576.797 (35%)	22.203.404 (26%)
IFOP	5.527.275 (1%)	5.954.396 (2%)	6.365.714 (1%)	625.411 (0%)	6.014.943 (7%)
<b>Total</b>	<b>602.448.786</b> <b>(100%)</b>	<b>360.889.007</b> <b>(100%)</b>	<b>804.263.323</b> <b>(100%)</b>	<b>148.029.843</b> <b>(100%)</b>	<b>85.473.342</b> <b>(100%)</b>
Reg.dist.	30%	18%	40%	7%	4%

Source: European Framework Program 2000/06

**Table 2**  
Executed Public Expenses by Fund, 2000-2006

Unit: €

≈ 12 <sup>9</sup> €	Norte	Centro	Lisboa e Vale do Tejo	Alentejo	Algarve
ERDF	3.300.220.973 (76%)	2.060.754.277 (77%)	1.641.505.884 (65%)	1.199.854.441 (69%)	571.720.000 (81%)
ESF	721.228.294 (17%)	335.567.277 (13%)	694.689.008 (28%)	183.221.184 (10%)	76.469.000 (11%)
FEOGA	303.604.383 (7%)	294.893.956 (10%)	173.786.859 (7%)	367.545.485 (21%)	56.532.000 (8%)
IFOP	2.242.350 (0%)	2.096.490 (0%)	0 (0%)	750.890 (0%)	2.394.000 (0%)
<b>Total</b>	<b>4.327.296.000</b> <b>(100%)</b>	<b>2.693.312.000</b> <b>(100%)</b>	<b>2.509.981.751</b> <b>(100%)</b>	<b>1.751.372.000</b> <b>(100%)</b>	<b>707.115.000</b> <b>(100%)</b>
Reg.dist.	36%	22%	21%	15%	6%

Source: European Framework Program 2000/06

**Table 3**  
Economic Development in Portugal (1994-1999)

Annual average rate (%)	EUR 15	Portugal
GDP pm (ii)	2.3	3.1
Private Consumption	2.1	3.1
Productivity (i)	1.5	2.1
Employment	0.7	0.8
Salaries after deflection	0.6	1.3

(i) per employed person; (ii) Deflection with the implicit GDP

Source: European Framework Program 1994/98

We can start by observing that the Alentejo region decreased sharply its relative participation in the national GAV and this contribute increase in the Algarve was minimum. The North presents a reinforcement of its situation of growth, the Centre being a region that shows the most important nearing. As to the GDP, the situation is next to the previous one. This indicator reflects still more clearly than the previous one the deviations of Alentejo from development objectives, during the analysed period. The Algarve goes on presenting an out of common situation resulting from a regional GDP higher than the national average, accompanied by a GAV much lower than the same. The situation clearly results from the existence of a tourism sector, the only support of the region's economy.

Another important analysis indicator is the population density that during this observed period drops in the Centre and in Alentejo, this one having a growing unemployment rate. This situation makes the meaning of that value become worse, once it leads the region to a clear tendency to a regional exodus.

In the second observed period (from 1993 to 1998), a rally of the Centre as well as a larger nearing (represented by a decline in the previous values) on the average of Lisboa e Vale do Tejo. As can be seem, Alentejo approaches and Algarve deviates still more from the national average values for the GAV. The contrasting values in the relation GDP and GAV in the North and Algarve have to be highlighted; these regions show two completely different options for the growth. In this period the population indexes show a level-off and also here the situation concerning the Central region appears to be positive.

The spatial distribution of investments concentrated in the country's North Centre and littoral and in terms of scientific and technological infrastructures the region of Lisbon concentrated around 60% of the expenditures in R&D; Also the industrialization pattern, especially out of Lisbon's region is still based on work – intensive, full of non-skilled workmanship, with a focus on the textile, shoe and furniture areas; In general, the investments have shown a high percentage of innovation material factors, focused as they were on the organizational behaviour in a quick profitability of the investments.

### **The period 2000-06 – major impacts**

Portugal received a total of 19.7 b Euros from the Structural Funds for the period, against a total of 16.3 b Euros received in the previous period (1994-99), which represents an increase of about 20.6%. This total budget was spread by the 4 existing funds: FEDER, FSE, FEOGA(Guarantee section) and IFOP. The six Portuguese regions North, Centre, Alentejo, Algarve, Madeira and Azores remained eligible in the Objective 1 statute, for the period 2000-06. The region of Lisbon and Vale do Tejo, which had been eligible in this statute during the previous period, lost this eligibility on 1st January 2000, because it reached a value of GDP pc higher than 75% of the Community's average. However, this region was qualified for a transitory assistance until 2005 and part of it went on being aided until 2006.

The results presented by Beutel (2002) indicate clearly the dependence of the Portuguese economy on the Community's funds. In a situation of a lack of these aids the growth of the Portuguese economy would fall from 3.4% to 1.1% in the year 2000 and from the forecast 3% to just 0.2% in 2006. The following table illustrates that dependence:

**Table 4**  
**Impact of the Objective 1 interventions in Portugal**

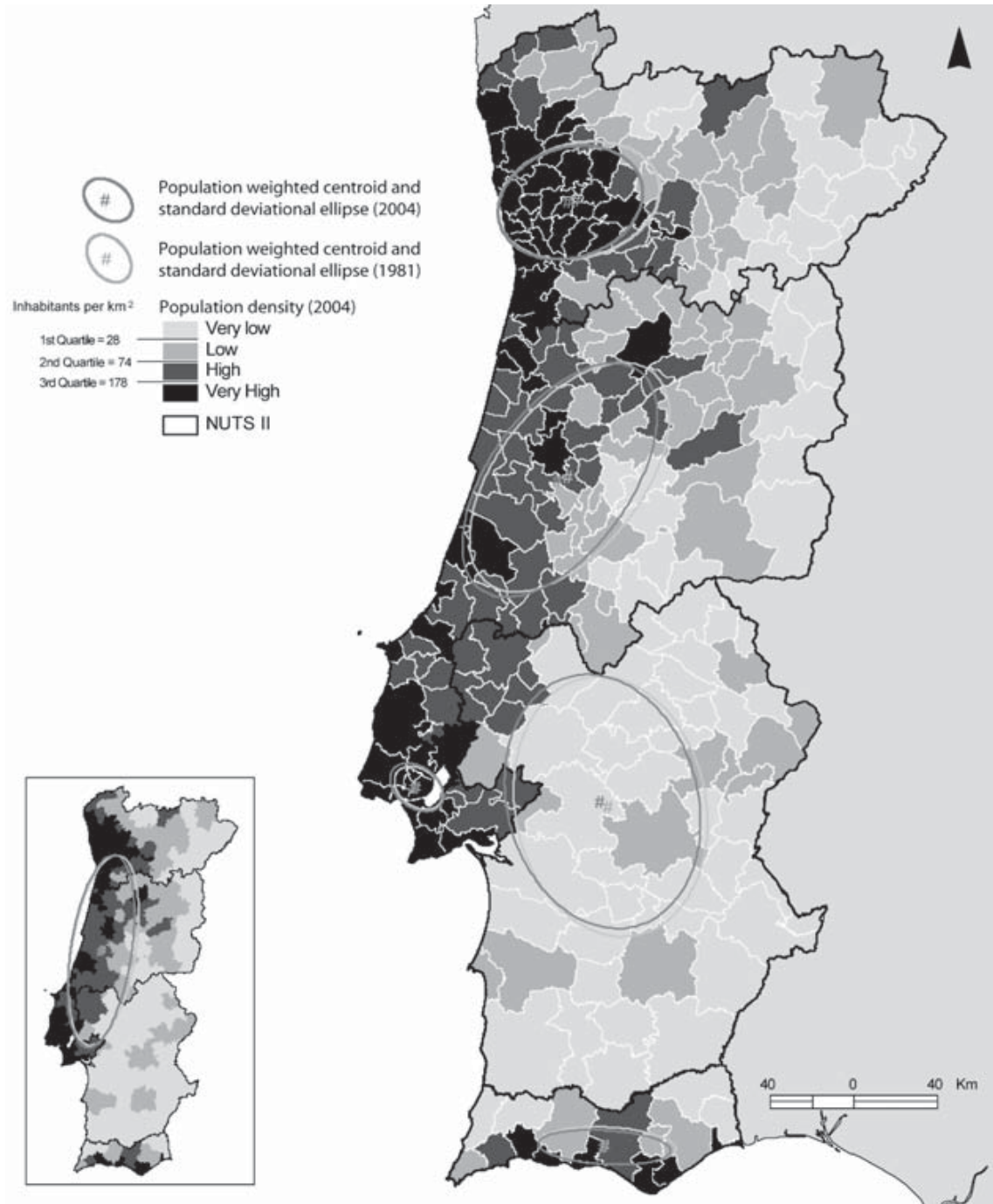
	<b>GDP</b>	<b>GDP without the total of interventions</b>	<b>GDP without the public interventions</b>	<b>GDP without the Community's interventions</b>
	<b>Growth rate in %</b>			
2000	3.4	-6.2	-3.4	-1.1
2001	1.7	-7.3	-4.8	-2.5
2002	1.5	-7.2	-4.8	-2.5
2003	2.3	-6.0	-3.7	-1.5
2004	2.8	-3.6	-1.7	0.0
2005	3.0	-3.4	-1.5	0.1
2006	3.0	-3.1	-1.2	0.2
	<b>Average growth rate in %</b>			
2000-2006	2.5	1.6	1.9	2.1

Source: adapted from Beutel (2002)

### **Regional disparities**

Regional disparities in Portugal have long been perceived as a vertical dichotomy between a dense and dynamic urban coast, and a desert and declining rural interior. Between 1995 and 2006, population density increased markedly in urban regions and in the intermediate regions located next to the urban regions. The Portuguese population share living in predominantly urban regions increased by 2 percentage points between 1991 and 2004. In contrast, the Portuguese population share living in predominantly rural regions decreased by 2 percentage points during the same period.

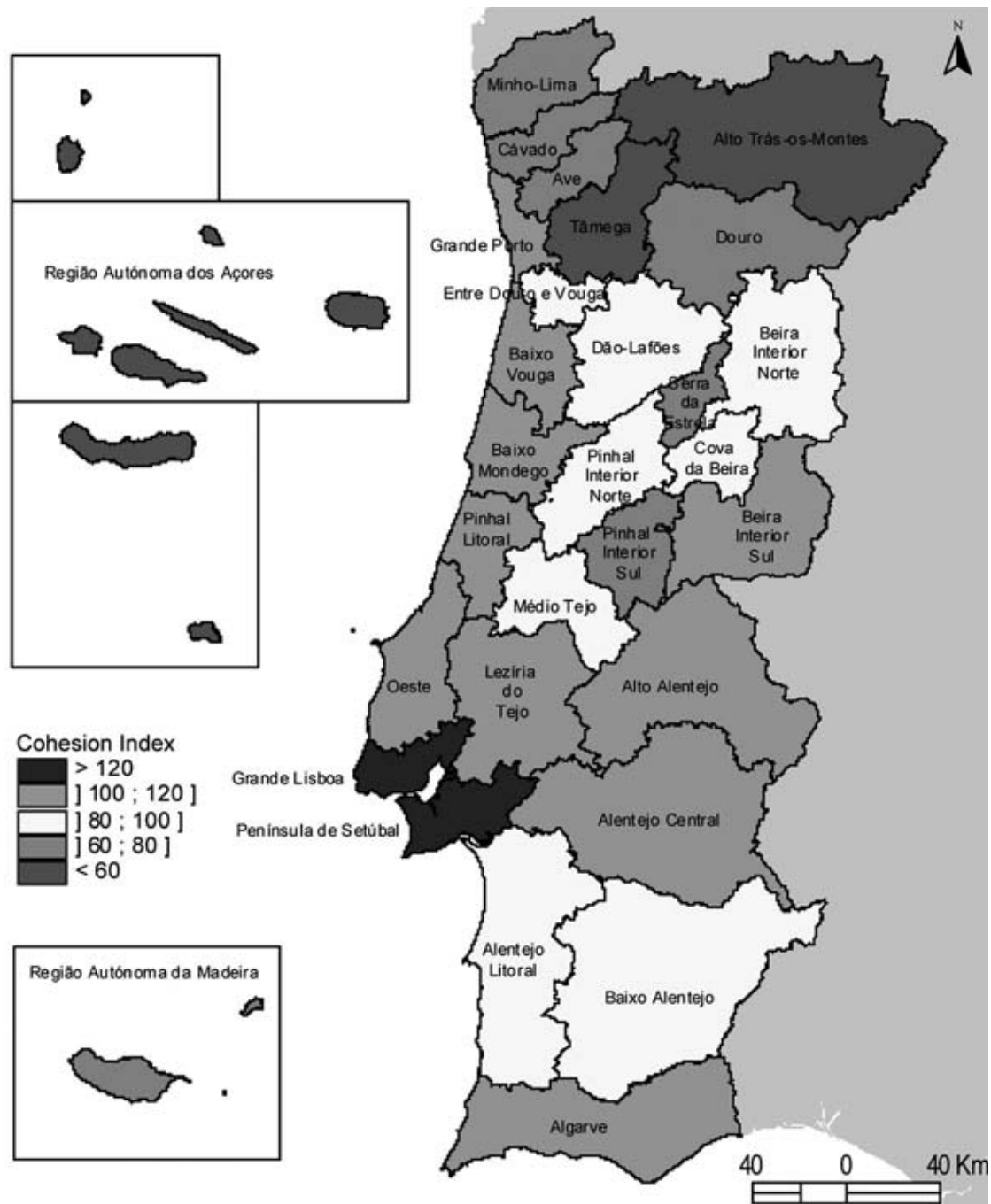
Figure 1  
Population density in Portugal, 2004



Source: OECD Territorial Reviews, 2008

Regional disparities in GDP per capita in Portugal seem linked to the economic cycle. During years of robust economic growth (1995-2000), the regional dispersion increased, when the economy slowed down, regional disparities also decreased. Due to the large contribution of Lisbon to national output, regional disparities and national growth rates are both highly sensitive to Lisbon's economic performance.

Figure 2  
Map of Portuguese regions classified according to the “Cohesion” index



Source: OECD Territorial Reviews, 2008

Portugal displays the fourth highest level of regional disparities in terms of GDP in the OECD (Gini index indicating disparities in GDP between all Portuguese regions is significantly higher (0.57) than the OECD average (0.48)). The two largest urban areas in Portugal, Grande Lisboa and Grande Porto, generate alone slightly less than half (43%) of national GDP. Regional disparities in GDP are in turn closely linked with the pattern of regional specialisation. Not surprisingly, Portuguese urban regions devote a higher share of their total employment to service activities than rural and intermediate regions.

### Portugal's National Strategic Reference Framework (NSRF 2007-2013)

After the European Council decided in spring 2005 to focus on re-launching the Lisbon Strategy, Community Strategic Guidelines for Cohesion (CSG) were adopted in 2006 and require future cohesion policy to target resources on three priorities: improving the attractiveness of member states, regions and cities; encouraging innovation, entrepreneurship, and the growth of the knowledge economy; and creating more and better jobs.

Table 5  
Examples of sector policies related with regional development in Portugal

		EU funds	National public funds	TOTAL public funds (EU + national)	TOTAL including private funds
<b>Mainland</b>	<b>Human Potential</b>	<b>6147 (69.3%)</b>	<b>2636 (29.7%)</b>	<b>8783 (99.0%)</b>	<b>8868 (100%)</b>
	Thematic OP for Human Potential	6147 (69.3%)	2636 (29.7%)	8783 (99.0%)	8868 (100%)
	<b>Factors of Competitiveness</b>	<b>6008 (55.7%)</b>	<b>1437 (13.3%)</b>	<b>7445 (69.1%)</b>	<b>10780 (100%)</b>
	Thematic OP for Factors of Competitiveness	3104 (54.8%)	686 (12.1%)	3789 (66.9%)	5661 (100%)
	Regional OP (mainland)	2905 (56.7%)	751 (14.7%)	3656 (71.4%)	5120 (100%)
	<b>Territorial Enhancement</b>	<b>7518 (34.0%)</b>	<b>3163 (14.3%)</b>	<b>10681 (48.2%)</b>	<b>22144 (100%)</b>
	ERDF	4458 (64.0%)	1852 (26.6%)	6310 (90.5%)	6969 (100%)
	Thematic OP for Territorial Enhancement	1599 (65.0%)	660 (26.8%)	2259 (91.9%)	2459 (100%)
	Regional OP (mainland)	2859 (63.4%)	1192 (26.4%)	4051 (89.8%)	4510 (100%)
	Cohesion Fund <sup>1</sup>	3060 (20.2%)	1311 (8.6%)	4371 (28.8%)	15176 (100%)
<b>Autonomous Regions</b>	<b>Regional OP (autonomous regions)</b>	<b>1602 (70.1%)</b>	<b>444 (19.4%)</b>	<b>2046 (89.5%)</b>	<b>2285 (100%)</b>
<b>National</b>	<b>Technical Assistance</b>	<b>137 (85.1%)</b>	<b>24 (14.9%)</b>	<b>161 (100.0%)</b>	<b>161 (100%)</b>
	<b>Territorial Cooperation</b>	<b>99 (72.8%)</b>	<b>37 (27.2%)</b>	<b>136 (100.0%)</b>	<b>136 (100%)</b>
	<b>TOTAL</b>	<b>21511 (48.5%)</b>	<b>7741 (17.4%)</b>	<b>29253 (65.9%)</b>	<b>44374 (100%)</b>

1. Including 170 million EUR of Cohesion Fund for the two autonomous regions

Source: NSRF 2007-2013

In response, all member states have been preparing a National Strategic Reference Framework (NSRF), which describes how each country proposes to implement these priorities on its own territory. The European Commission approved Portugal's NSRF on 2 July 2007. Portugal will receive 21.5 billion EUR of EU cohesion funding over the 2007- 2013 programming period. In accordance with EU rules, at least 60% of the funding available for the "Convergence" objective and 75% of the "Regional Competitiveness and Employment" objective were earmarked for Lisbon related investments (even going beyond the minimum threshold, since effective earmarked expenditures amount to 83% and 78% respectively). The Portuguese NSRF proposes five national strategic priorities: to improve the population's skills; to promote sustainable growth; to guarantee social cohesion; to ensure the development of the territory and the cities; and to improve governance efficiency. Five structural principles of investment will apply: concentration; selectiveness; economic viability and financial sustainability; territorial cohesion; and strategic monitoring. The five national strategic priorities will be implemented through a set of Operational Programmes, as presented in Table 5.

#### 4. THE MICROSCOPIC VIEW: PRIME

PRIME - Incentives Programme for the Modernisation of Economic Activities was instituted by the Resolution of the Portuguese Council of Ministers no. 101/2003, after its formal approval by the EC, in 2003. The program integrated a set of medium term economic policy instruments for the period 2000-2006 which have been applied to different economic activity sectors in Portugal.

The instrument was developed exclusively for the Industry, Energy, Building Industry, Transport, Tourism, and Trade and Services sectors. The Programme integrated in Area 2 of the Regional Development Plan – *Adjusting the Production Profile towards the Activities of the Future*, and was designed to foster productivity and competitiveness of Portuguese firms, thereby promoting new development capabilities under the following goals: to ensure a generally sound competition environment, which may contribute to revitalise business structure, and to steam in firms research and development on new products and processes; to simplify procedures and stimulate de-regulation; to encourage the qualification of human resources by enhancing technical and scientific training thereby fostering productivity growth, through more motivating and rewarding tasks.

As such, PRIME was promoted along the following priority areas of strategic actions: Area 1 – Enterprise Stimulation; Area 2 – Qualification of Human Resources; Area 3 – Stimulation of the Business Environment. The two first Areas are dedicated to a direct intervention at firm level, and the third, of a more crosscutting nature, aims at stimulating business environment. The 29 support measures and incentives schemes at which the programme is structured are presented in the Annex I.

The financial supports corresponding to PRIME Programme were non refundable incentive types and each support measure or incentive scheme aimed to generate new economic activities and to introduce a new competitive and innovative context to the Portuguese economy. The financial support approach of this Programme also included a risk capital fund and achievement bonus incentives.

PRIME was a public policy instrument driven to the promotion of economic activity in the Portuguese territory specially focused, but not exclusively, on small and medium size enterprises. Some of Programme support measures and incentives included as beneficiaries non profit organisations, municipalities, technological schools, business associative structures and technology-based incubator centres and parks. As it was supporting a wide range of economic activity sectors the instrument was neither sector nor regional focused.

In order to evaluate the immediate results from the use of such type of supports, mainly oriented by national policy goals, we have created a database contained 15307 records reported to 2007. After a filter application based on NUTII clear identification, 14910 enterprises receiving PRIME incentives, during the period 2000-2006, were investigated by using a K-means cluster analysis combined a correspondence analysis to describe the relationships between the three identified clusters and each nominal variable (Galindo and Vaz, 2009).

The results of this study supplied several conclusions that are important to emphasize in this article. The first one is related to the asymmetric use of the incentives: The use of PRIME (as a public policy instrument for indirect distribution of European funds upon the entrepreneurial tissue), generated a clear geographic concentration of financial help in the northern part of the country. This region accumulated 41.4 per cent of the supports for firm stimulation, 39.0 per cent for stimulation of business environment and 49.4 per cent for human resources qualification. Certainly, the fact that other regions like Algarve, Azores and Madeira could only profit from this program in insignificant amounts (respectively 3.4, 1.9 and 1.5 per cent from the total available funds) is of great concern, suggesting the

following question: Is there no entrepreneurial activity in such regions? Or, rather, location determined less use of supports by the existing companies? Is it possible that they could have been unable to follow the requirements for PRIME program calls?

A further observation of results shows that, by district, the concentration of PRIME supports goes clearly to Porto, a metropolitan area that absorbed respectively 12.8, 21.3 and 21.3 per cent of total available amounts. More surprising is the fact that Lisbon, the Portuguese capital, received 26.3 per cent help for stimulation of business environment, mainly driven for associative initiatives and other, not classified categories in the CAE (Classification of Economic Activities). If Lisbon, as cosmopolitan area, needs such a huge support how to classify than those conditions of less favoured Portuguese regions?

From the perspective of the sectors, there are difficulties to analyse a significant part of supports' destiny. Indeed, 48.1 per cent of the financed amounts were canalized to sectors, not specified by the CEA. As far as the remaining is concerned, the associative sector as well as commercial and trade activities had also good shares in the use of PRIME. The activities for which funds have been mostly used are related to: infrastructure building (for associations) and commercial urbanism, and small business initiatives – not specified, but for improvement of business environment in general. A main question to this issue is: how did PRIME support the industrial and agricultural activities, and by means of which effects for the local, regional or national consumption trends?

A time-series observation can also be quite helpful for a better perception on how PRIME acted to promote activities in general. Rather than starting by shaping human resources and strengthening firm environment followed by firm financing activities, as suggested by the theory of endogenous growth, PRIME used the support system exactly on the inverse order. Our analyses points out the following: Those supports for Area 1, centred in firm stimulation, were attributed at the very start of the program - year 2000 and for a two years period. From 2002 to 2004, the stimulation of business environment was promoted, without integrated re-qualification of human resources; indeed, help for such projects arrived much later as it was the last PRIME target, due in 2005 and 2006. How is it possible to expect that companies can be duly stimulated by a support system without the convenient adequacy of their human resources at the very beginning?

In fact, PRIME system started up with a restricted investment in the area of enterprise stimulation (8539 projects with an average investment of 130279.7€). It was followed by few, but expensive, business environment actions mainly related to building of commercial infrastructures - about 900 projects were associated, now with a much higher average investment, 771208.3€. Finally, in the last execution period, a great amount was allocated to human resources qualification. In this case, 5645 projects have received an average investment of 2602544.23€; and despite these large amounts, the southern part of the country stayed almost away from any action. As proved in this paper, the total amount of the analysed investments was primarily absorbed to speed the growth process of companies located in the northern and central regions of the country. In such regions, and because investments were concentrating mainly in few commercial activities, the system probably served also to aggravate the Portuguese trade balance. Still, some few indirect positive effects for the primary and secondary sectors should be expected – such results are now very difficult to evaluate in a struggle against the strong international financial crises.

## 5. CONCLUSIONS

There is much to approve in the way how Portugal has used the European Funds developing from a very narrow bases. Most of all, policy makers should provide a more accurate capacity to integrate the different funds for the crossed goals of sustainable development.

Doubtless, PRIME served to accentuated asymmetries in Portugal while a huge effort to regional cohesion had been prepared much ahead. Is the PRIME programme a unique case? Doubtless, it is not.

By anticipating scenarios policy makers could avoid reducing the ineffectiveness of large European investments.

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