The EC's Pre-accession Aid to Portugal

A Critical Look

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Many experts expect Portugal's and Spain's integration into the EC to have a basically negative effect on their economies. Positive effects are expected essentially to be a result of the EC's aid programmes. An indication as to how far the aid will in fact help to promote adjustment and modernization in the new Southern European member countries is shown by the following critical analysis of the aid programmes to date to Portugal.

When Portugal (and Spain) applied for membership, even the EC Commission itself considered the enlargement as a political necessity rather than an economic opportunity. Most experts[1] analysing the possible effects of free trade on the applicant economies expected them to be beaten by high-tech, high-productivity competitors from the old EC-9 and/or by the low-wage NICs outside the EC. Almost everybody agreed that any positive outcome of the enlargement would largely depend on the structural aid that the Mediterranean countries should receive from the EC. Hence, it seems appropriate to analyze the effects this aid already had in the applicant countries.

In EC terminology, the term "pre-accession aid" covers many grants and credits which were not originally intended to prepare Portugal for its entry into the EC. However, it includes the measures listed in Table 1.

The first (emergency aid) programme of 1975 was primarily a political decision, intended to strengthen the young and still unstable Portuguese democracy while having nothing to do with the future prospects of EC membership, at least not from a political point of view.

The Financial Protocol between the EC and Portugal was signed on September 20th, 1976 and came into force on November 1st, 1978. Again, the objective of this programme was not so much to promote the adjustment of the Portuguese economy with regard to its integration but to achieve a political goal by economic means, namely to support the Portuguese efforts to strengthen democracy and economic and social development.

On March 28th, 1977, Portugal formally applied for EC membership. After 8 years of negotiations, this led to the signing of the Treaty of Accession in 1985. One of the Community's first reactions was the EC Commission's "Opinion on Portugal's application for membership" of 1978 that emphasized the need for structural adjustment measures for the Portuguese economy. It was in this context that on December 3rd, 1980, the pre-accession aid agreement was signed. With the further delay of the act of accession, two supplementary aid programmes followed in 1983 and 1984.

The short history of the relations between Portugal and the EC already allows us to draw some conclusions. While the EC expected the accession to aggravate the economic difficulties and hence asked for pre-accession aid, there was no such aid offered after the signing of the Free Trade Agreement in 1972. This already indicates an important aspect of the relationship that we can observe during the whole course of the implementation of the EC's pre-accession aid, namely the dominance of political, economic and administrative interests over the explicit aim of the aid programme. While this explicit aim has been the structural adjustment and modernization of the Portuguese economy, the EC's political interest

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[1] Just to name a few: see Deutsches Institut für Entwicklungspolitik (DIE) (ed.): Zur Erweiterung der Europäischen Gemeinschaft in Südeuropa, Berlin 1977; DIE (ed.): Europäische Gemeinschaft und südeuropäische Beitrittsländer. Anforderungen an die Integrationsfähigkeit, Berlin 1978; K. Eßer et al.: Portugal. Industrie und Industriepolitik vor dem Beitritt zur Europäischen Gemeinschaft, Berlin 1977; DIE (ed.): Portugal's Industrial Policy in Terms of Accession to the European Community, Berlin 1980; L. Tsoukalis: The European Community and its Mediterranean Enlargement, London 1981; C. Vaitsos: Efeitos económicos do Segundo alargamento, in: Sousa Ferreira (ed.): Integraçâo Económica. Teoria-CEE-A Adesâo de Portugal, Lisbon 1983.

Table 1
Survey of Pre-accession Aid Programmes by the EC

Year	Programme	Amount[1] (ECUs million)
1975	Emergency aid programme (EIB loans only)	150(180)
1978	Financial Protocol (EIB loans only)	200(230)
1980	Pre-accession aid proper (EC budget and EIB)	250(275)
1983	Second pre-accession aid programme (EIB loans only)	75
1984	Third pre-accession aid programme (EC budget and EIB)	200
	Total	875

[1] The EC budget includes the amounts given in parentheses while Portugal receives the net values. The differences are interest subsidies which are transferred directly from the EC budget to the European Investment Bank (EIB).
Sources: EIB Annual Report: Communidade Europeia 24 (Vol. VI, May 1985).

was stabilization, and its economic one the enlargement of the European market without harming its own producers. The administrative process (see below) follows its own rules, and basically tends to avoid any conflict, even at the price of jeopardizing other aims.

The Aid Programme

It is useful to consider some general aspects of all programmes and projects of pre-accession aid before entering into a more detailed analysis. The total aid programme comprises loans as well as grants. The loans are provided by the European Investment Bank (EIB) while the grants are financed directly by EC budgetary funds. The latter is usually called the "action commune". Interest rates and terms of EIB credits vary widely. Repayment periods range from 7 to 20 years with grace periods of 1 to 5 years. Interest rates vary between 6 % and 14 %. After the first programme of 1975 the interest rates increased with the world-wide rise of interest rates which, of course, also increased the EIB's cost of refinancing loans.

On 6-7th October, 1975, the EC council decided to give Portugal EIB loans worth ECU 150 million. Interest payments have been subsidized by 3 % with ECU 30 million from the EC budget. The projects of this emergency aid programme of 1975 included, among other things, an oil-fired and a hydro-electric power plant, two irrigation projects, two harbours and two global loans.

Global loans are credits provided by the EIB to Portuguese financial institutions (partly development banks) that are supposed to finance indirectly small projects. They have been earmarked for the promotion of small and medium scale industry (SMI) and small and medium scale tourism projects. By the end of 1984, 94.4 % of the funds of the emergency aid programme had been disbursed, i.e. virtually all except a part of the irrigation project.

The financial protocol which was signed on September 20th, 1976, did not come into force until 1978. It comprised ECU 200 million, of which 150 million carried 3 % interest subsidies – financed by ECU 30 million from the Community budget.

The projects of the financial protocol of 1976 bearing subsidised interest rates include a road project, a eucalyptus plantation, improvement of a harbour and an airport, two electricity projects (EDP), and two global loans. Four projects in the chemical and cement industries were not granted interest subsidies. By the end of 1984, 84.3 % of the funds had been disbursed.

The pre-accession aid agreement was signed on December 3rd, 1980. The aid comprised EIB loans worth ECU 150 million as well as grants from the EC budget worth ECU 125 million. ECU 25 million of the budgetary funds were earmarked to subsidise the interest on a great portion of the EIB loans, namely ECU 125 million. Hence, the amount that really could be invested in Portugal was ECU 250 million.

The pre-accession aid projects of 1980 included a coal-fired power plant in Sines, the improvement of two airports, a road, and three global loans. By the end of 1984, 61 % of the EIB loans had been disbursed. The three global loans were disbursed in their entirety to the Portuguese banks though probably not to the final borrowers/investors. The two infrastructural projects were slower to absorb the funds earmarked for them.

The four "action commune" programmes were:

☐ The *SMI promotion-programme* comprised four sub-programmes (professional training of officers, technical assistance to SMI enterprises, loans for modernization of enterprises considered to be of general economic and social interest, training of IAPMEI experts (IAPMEI is the national SMI promotion institute)).

☐ The *regional policy measures* of the "action commune" included mainly roads, an airport, the navigability of the Douro river, schools, industrial parks, a sewage system and some projects in the Azores and Madeira.

☐ The following four sub-programmes were oriented towards *improving Portuguese agriculture:* market organisation (a consulting service for an accounting and market information system); measures to increase agricultural productivity; measures to restructure land use; irrigation projects (construction of a dam, among others).

□ In the field of *vocational training* the "action commune" financed 10 training centres in Aveiro, Beja, Braganca, Castelo Branco, Faro, Portalegre, Santarem, Tomar and Vila Real.

The 1983 extension of pre-accession aid was composed of EIB credits worth ECU 75 million, whereas the second one comprised EIB credits amounting to ECU 150 million and grants out of the EC budget amounting to ECU 50 million. The funds from this extension were invested in the following projects: the second portion of the coal-fired power plant in Sines (EDP), another electricity project in the Azores, a leasing company, and two global loans.

The EIB projects of the second extension in 1984 comprised three roads, a railway bridge, the third portion of the power plant in Sines (EDP), and two global loans.

Portugal and the EC have also still to define the use of the budgetary part of the second extension worth ECU 50 million. The EC explicitly wants to use the funds to modernize Portuguese agriculture and fisheries. The programme is supposed to focus on increasing the quality and marketing of products, vocational training, upgrading and improving animal health, technical assistance, promotion of co-operatives, agricultural statistics and research. According to a press release[2] issued by the Ministry of Agriculture, which is responsible for the programme, ECU 44.5 million will be invested in the Portuguese mainland, 5 million in Madeira and the Azores, and ECU 500,000 in the fisheries sector.

Table 2 shows the distribution of pre-accession aid by regions, industries, and sectors (public or private) and gives the respective percentages for all EIB loans since 1975, i.e. ECU 725 million. The data are still provisional as two projects are pending EIB approval.

Table 2
Distribution of EIB loans

Industry	%	Region[1]	%	Sector	%
Manufacturing	34	North	35	Public Enterprises	43
Energy	26	Centre	15	Private Sector	27
Agriculture	6	South	46	Public Administration	30
Infrastructure	34	Madeira	2		
		Azores	3		

[1] The regional distribution does not include the global loans (totalling ECU 174 million).
Sources: EIB and own calculations.

The distribution by sector and industry is most striking. Of the industries, energy and transport infrastructure prevail with 60 % of total funds, while agriculture in spite of its undisputed key role in the Portuguese economy only gets 6 %. Of course, one has to take into account that this low involvement of the EIB in agriculture is partly due to a deliberate division of labour among various donor agencies (the World Bank and e.g. the German bilateral technical assistance focus on agriculture). However, it is noteworthy that the EIB did not seem to care much for a more equal share in the international effort to develop this sector. The public sector received almost 3/4 (73 %) of all funds.

The regional distribution, however, meets more the expectations of a development approach aimed at correcting existing distortions. The centre with the capital Lisbon and its agglomeration advantages received only a small share, viz 15 %.

That distributional pattern is hardly changed if one includes the "action commune" (i.e. the aid from the EC budget) which has been omitted in Table 2. Again the lion's share, approximately 55 %, was invested in infrastructure. It is true the agricultural policy measures made up about 23 % but agriculture proper got no more than 15 % while the rest financed dams and the land use programme (reforestation and a survey of the area under viticulture, i.e. sub-programmes 3 and 4). Such a view already includes the market re-organization projects in agriculture. Manufacturing industry received only 10 % via the SMI promotion agency IAPMEI. The 15 % earmarked for the 10 vocational training centres are difficult to allocate. The private sector, however, again got only a minor part, viz about 22 %, of the "action commune". That figure includes the indirect aid via e.g. the IAPMEI.

The picture changes somewhat in favour of the agricultural and fisheries sector if one considers the last ECU 50 million from the EC budget that are exclusively earmarked for these industries. However, since there is no project list available, one does not know which portion of these funds will be channelled into infrastructure and the public sector.

Some Critical Observations

A comprehensive appraisal of pre-accession aid should assess its effects project by project: how far does it contribute to alleviating the basic weaknesses of the Portuguese economy and prepare it for accession? Such an evaluation is impossible here for several reasons. Firstly, it is still too early, since many projects have just started and are not yet likely to show their effects. Secondly, a lot of relevant information is still confidential or hard to come by, particularly concerning the global loans. And thirdly, it would by far exceed the scope of this article. However, it is possible to make

[2] See Diário de Noticias (DN) of August 7th, 1985.

some critical comments about the fundamental principles and policies guiding the EC's aid programme.

The relationship between Portugal and the EC has always been subject to many influences. Above all, it was political considerations that determined the attitude of the EC towards Portugal. Portugal's accession has been regarded as a means of strengthening its democracy but, at the same time, as a burden to its economy.[3] Economic integration, in particular free trade, was expected to have mostly negative effects on, among other aspects, employment, the balance of payments, and regional development. These negative effects, of course, were only the counterpart of positive ones on the side of old member states and even third countries which would get easier access to the Portuguese market.

Since exacerbating the already grave economic problems of Portugal could jeopardize the supreme goal of strengthening democracy, the EC had to compensate Portugal for the foreseeable negative effects of accession, or – even better – to prepare the Portuguese economy for the competitive challenge so that it would avoid the negative effects in the first place. The latter option demanded comprehensive modernization and structural adjustment in the sectors most exposed to competitive shocks after accession, notably agriculture and manufacturing industry.

However, these basic objectives of pre-accession aid and the instruments available to the Community to achieve them are worlds apart. Other priorities determine the administrative and political process of managing the aid, on the EC's as well as on Portugal's side. Of these powerful influences, we will consider the following: the economic interest of the EC; economic and political interests in Portugal; the administrative constraints of the aid management.

□ With regard to the EC's economic interest it has to be mentioned that some member states used their influence to veto or modify projects proposed by the Portuguese side, e.g. France and Ireland in the case of the SMI modernization programme, a sub-programme of the "action commune".[4] This highlights a conflict of interest: while the EC is interested in the political stability of its Portuguese "backyard" and hence in its economic prosperity, the latter is true only up to a point. Obviously, the EC (i.e. its member states) is not interested in establishing a major competitor for its own producers. Hence, it did not abolish all trade barriers vis-à-vis Portugal in the course of liberalization after the free trade agreement. For the same reason, it will hardly provide aid to Portuguese enterprises that are likely to beat their European competitors afterwards or that will only increase the existing overcapacity in some sensitive industries such as textiles, shipbuilding, steel, bulk chemicals, etc. On the other hand, if Portugal wants to develop at all, it probably has to increase its production even in industries that are declining in the EC as a whole. Growth in declining sectors is a zero-sum or even negative-sum game, at least in the eyes of the losers in the old member states.[5]

□ On the Portuguese side, it is the distribution of the EC's funds that is subject to political controversy about who will control it and can thus favour specific recipients. This has led to some delays in the process of project identification and appraisal, and to a dependence on foreign technical assistance, and has increased the influence of private interests in the use of the EC's funds. During its history, Portugal has developed a political culture and social structure of sorts that is oriented towards distributing existing wealth or easy opportunities for enrichment via protection and clientelistic machinations rather than opening up chances for everybody to work, invest and run risks in an environment with basically equal opportunities. Even the 1974 revolution has hardly changed this except by increasing the number of people playing the same old game.[6] Thus, the EC's pre-accession aid is subject to a political process run by a political class that is part and parcel of the very structure the aid is supposed to help to overcome. The EC aid will hardly touch the roots and, therefore, not solve the resulting problems.

□ In effect, the EC's own rules and regulations limit the usefulness and efficiency of the aid programme. *Firstly,* running costs for administration and maintenance of projects cannot be financed by Community aid. Following traditional aid philosophies, the EC finances only investment projects regardless of the follow-up costs they will later generate for the receiving agencies. If one thinks of the huge deficits and the enormous foreign debt of the Portuguese government and of most public enterprises it seems questionable to invest via

[3] See EC Commission: Opinion on Portuguese application for membership, Brussels 1978, p. 7.

[4] See Europa Informaçâo Ano 1, No. 8, June 1983, p. 15.

[5] See the very lucid analysis by J. Cravinho: Structural Adjustment in Portugal in the Face of Entry to the EEC, in: T. C. Bruneau et al. (eds.): Portugal in Development. Emigration, Industrialization, the European Community, Ottawa 1984; the problem is analysed more generally in Dauderstädt, Pfaller: The New Zero-Sum World. International Competition and Global Economic Growth, Bonn 1985.

[6] For a more detailed analysis of Portugal's political economy see Bruneau, MacLeod: All Power to the Parties. Politics in Contemporary Portugal, publication forthcoming, in particular Chapter 10 on "The Politicized Role of the State in the Economy".

more credits and debt rather than to manage existing funds more prudently. With its current approach, the EC aid is thus likely to exacerbate one of the greatest problems of the Portuguese economy, its external debt. Not only the EIB credits themselves add to this debt but possibly the need for additional loans to finance the complementary 50 % (that Portugal has to contribute to each project) as well as follow-up costs. This bottleneck might also limit Portugal's overall capacity to absorb the potential flow of aid from the EC – before and after formal accession.[7]

Secondly, the administrative process *per se* has already distorted the European, notably the EIB aid effort in a particular way: it has led to a bias towards big projects, towards investments in energy and transport infrastructure. This is no surprise if one takes into account the institutional constraints of an "investment bank" that has to run financial operations worth billions of ECUs each year with a staff whose number is growing only in absolute terms (operations per employee increased from ECU 295,340 in 1960 to over 8 million in 1982[8]). This makes it impossible to identify, evaluate and implement thousands of micro-projects.

Two crucial sectors of the Portuguese economy that are in special need of aid are thus cut off from any direct support by the EIB: agriculture and the SMI. Both will be particularly hard hit by accession and both are not only of economic but of enormous political importance since they provide the bulk of employment. The EC and the EIB have been aware of this problem and created a special instrument: the global loans. Global loans are made to Portuguese financial institutions that are supposed to use the funds to support small and medium investments (in agreement with the EIB). However, one can hardly expect that the Portuguese institutions will handle these funds differently from the way they managed their own funds. And it is exactly this traditional, clientelistic (and, in former times, corporatist) modus of allocating capital that is behind the under-development and structural weaknesses of the Portuguese economy. As we will see below, the global loans actually did not accomplish their objective.

The above description of the administrative and political process has already revealed some basic deficiencies of the EC's pre-accession aid: its bias towards investment (instead of more continuous interventions) and towards big projects (instead of measures to support small and medium enterprises in all sectors). A closer look sector by sector will provide further corroboration.

A Sectoral Analysis

Energy: Together with agriculture this sector contributes heavily to Portugal's trade deficit. Petroleum and derivatives are the single most important import item. 26 % of all EIB loans have been invested in this sector, mainly in two big projects. The first one, in Setubal, received ECU 55 million in two portions. It is an oil-fired power plant without positive effects on the external accounts. The second one, in Sines, supported by ECU 60 million in two portions, is the single biggest project of the whole pre-accession aid. It is a coal-fired power plant und will depend totally on imported coal which is now shipped by rail from Lisbon to Sines since the port/terminal in Sines itself is far from being completed due to bad planning. The project can alleviate the trade deficit in as far and as long as coal is cheaper than oil or other imported energy. But it contributes to the diversification of Portugal's energy supply, and it has been built almost entirely by Portuguese contractors. The latter fact has considerably reduced the import-intensity of the project during the construction phase.

However, this project (and other similar ones) will hardly contribute to solving Portugal's energy problem, notably its dependence on imports. Small wonder, if one has a closer look at the background of the energy situation. A recent study[9] shows that between 1975 and 1980, Portuguese electricity consumption has increased 2.5 times as fast as the receipts. This indicates a lop-sided price policy, subsidisation of specific consumption, and inadequate control. These problems are of an administrative and political nature and will not be solved by big investment projects. Measures to solve them (such as better control) are per definitionem excluded from financing by the EC since they constitute running costs.

The EC based its energy policy in Portugal on the idea that in the long run, Portugal had to catch up with the EC in terms of per capita energy consumption. It neglected the fact that forecasts of energy demand have been notoriously wrong in the past 15 years, at least in the OECD countries (e.g. West Germany). It also disregarded the successful de-linking of energy consumption and economic growth in the other OECD

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[7] See also the sceptical view by G.R.d.A.S.M. Lampe: Effects of Community Structural Grants and Loans to Portugal. Thesis, Bruges 1983; and the calculations presented by J.d.A. Serra: Os fundos communitários e a modernizaçâo da economia, in: DN of January 6, 1986.

[8] See EIB: 25 Years. 1958-1983, Luxembourg 1983, p. 104.

[9] See DN of August 16th, 1985.

countries due to an effective, albeit not voluntary, price policy.

Infrastructure (transport): About a third of all EIB loans has been invested in this sector. Again a third of this financed the construction of roads. With regard to total pre-accession aid the share of road construction is even higher as the "action commune" comprises some road projects, too. Nobody would dispute the necessity to improve the Portuguese road system. But in this case, too, big new projects do not seem to be the right solution.

There are other deficiencies which need improvement. One is bad planning. The Lisbon highway system, for instance, is characterized by six-lane roads leading into narrow alleys. Traffic lights disrupt the flow even on the big motorways. Existing highways are badly connected. Another is maintenance. Even new roads are in a very bad state after only one or two years, in most cases after the first rainy winter. In Porto, for instance, there are about 500 kms of damaged roads, some of which have had to be closed to traffic. Repairing them would cost about ECU 20 million. In the city budget, only ECU 150,000 are available for roads.[10] The city hopes to receive grants from the EC's regional fund after accession. Repairing roads, preventing avoidable wear and tear by better technical and weight control of trucks, more efficient planning – all this seems to be a better and cheaper approach than big new investment. But again, these are running costs or maintenance that cannot be financed by the EC. Without it, however, one has to expect that all the new highways financed by the EC will soon be in the same bad shape as the other roads.

Manufacturing industry: This sector received most of the EC aid if one includes all the global loans that were exclusively provided to manufacturing enterprises and make up two thirds of all EC funds received by manufacturing industry. Assessing aid in this industry depends therefore on the evaluation of the global loans and of the activities the IAPMEI undertook with the funds provided by the "action commune". Both programmes, IAPMEI and global loans, are supposed to promote the SMI. And the EC's performance with regard to the SMI (and to agriculture) is crucial for Portugal's adjustment to integration. The SMI is still dominating manufacturing industry: the 1972 industrial census showed that over 40,000 of a total of 42,588 enterprises employed less than 50 workers. The EIB itself assumes that 95 % of the industrial sector consists of enterprises with a labour force of less than 100. But does the EC's aid really reach them?

Unfortunately, there is little information available about the use of EC funds by the Portuguese institutions. But it is possible to draw some conclusions from the existing data. The modernization programme run by the IAPMEI totalled more than ECU 25 million (only partly EC funds). About 120 enterprises are going to benefit from the programme. That makes the average investment subsidy amount to about ECU 200,000. According to a list of the 1,600 biggest SMI enterprises published in March 1985, these enterprises had sales between ECU 2 and 6 million. In 1980, about 10 % of the gross production value has been invested in manufacturing industry.[11] That indicates that only the very big enterprises of the SMI could possibly absorb such an additional investment.

With regard to the global loans the situation is even worse. The EIB says that 200 undertakings have been financed out of global loans totalling ECU 144 million.[12] That implies an average investment of ECU 720,000 which is more than three times the size of the average IAPMEI project. Although each project has to be approved by the EIB and to fit EIB criteria, one has to conclude that if it reached SMI enterprises at all (i.e. in EIB terms with less than 100 employees) it must have reached only big capital-intensive ones.

Therefore, it seems more than questionable that the programmes really "pick winners" or create jobs. More

[10] See DN of August 26th, 1985.

[11] See Estatisticas Industriais 1980, Vol. II, p. XLVII.

[12] See EIB Information No. 45, July 1985, p. 5.

probably, those will benefit who already have access to state subsidies and/or are occupying other profitable and politically protected niches: public enterprises and private entrepreneurs who have good (clientelistic) relations with the promotion agencies and the necessary know-how to apply successfully for subsidies. Small entrepreneurs outside the big agglomeration centres who are most likely to suffer from post-accession shocks will not belong to the happy few. Unfortunately, available data do not give a sub-sectoral breakdown of the investments from EC funds. According to the EC Commission's own analysis it should be a priority to modernize the sensitive branches and to create jobs in order to absorb the people who will lose their jobs in the course of the inevitable restructuring of agriculture.

Agriculture: This key sector has been neglected by the EC in quantitative terms apart from the last extension of the "action commune". In qualitative terms, the EC invested mainly in infrastructure. But the basic problem of Portuguese agriculture is its low productivity. The 24.1 % of the active population working in this sector produces only 7.5 % of the GDP. This has led to a shortfall in supply despite high prices (partly above the EC level, which is already artificially high compared to world market prices) and contributed substantially to the trade deficit (18 % of the deficit is due to agricultural imports).

The causes are to be found in decades of neglect by an economic policy that favoured industrialisation, kept agricultural incomes low, and made investment in this sector unprofitable while benefitting from other supply facilities, e.g. the former colonies. Public efforts to promote agriculture have meanwhile led to a full-blown bureaucracy but hardly to a more efficient extension and consulting service for the peasants. In the Ministry of Agriculture in Lisbon and in its subordinate offices there are about 21,000 officials, but in the provinces one extension officer is supposed to take care of a whole district. Usually, he spends most of his time in the office without making in-field visits.

Low producer prices and oligopolistic marketing prevent the high prices of agricultural products from improving income and, thus, the peasants capacity to invest. Access to capital (loans) and know-how depend on (clientelistic) relations that most small peasants lack. To build institutions that are capable of thoroughly reforming that situation is beyond the EC's capacity and the author's imagination. As productivity levels rise many small farmers could be forced out of business, which would lead to higher unemployment.

Final Remarks

The overall picture confirms our view: pre-accession aid has provided a lot of money to Portugal, but it has hardly reached the people who really need it and make the best use of it. The EC does not possess the instruments necessary for this task, and the Portuguese side lacks the political will and the administrative machinery to do it, although public rhetoric and the written programmes always favour it.

Let us compare the policies and results of EC pre-accession aid with the EC Commission's own analysis in its "Opinion on Portugal's application for membership" that represents the philosophy of the EC's co-operation. Obviously, there is only a very weak connection between the main problems identified by the EC and the policies and projects implemented by the EC. Basically, many people in Portugal will benefit from an increased energy supply and better transport, i.e. road system. But the main beneficiaries may be neither the sectors that will really face difficulties after accession nor the potential growth sectors, but the groups that are already better-off and that are possibly to be considered as obstacles to, rather than agents of, adjustment, structural change and modernization.

Surely, a definitive judgement should be based on a more comprehensive investigation. But a rather sceptical view seems appropriate considering the above analysis. Many questions remain: Who will benefit from a better transport (i.e. road) system into the Portuguese hinterland? Will it help the producers there to enter the markets of the centre or will it, rather, permit the large producers to enter the local markets and crowd out the small suppliers? What will it do to the Portuguese retail business which is incredibly fragmented and characterized by a large number of very small shops? Is a policy of cheap and/or large energy supply compatible with the promotion of labour-intensive production?

Many of these changes might be inevitable in the course of modernization. But the social consequences could be increased unemployment, poverty and a further deterioration of an already fragile democratic consensus that could eventually re-open the issue of Portugal's membership itself. Pre-accession aid seems unlikely to contribute to making the modernization process socially more acceptable. Neither does Portuguese national economic policy. It is the already privileged groups that are mostly benefitting from both policies and that get their necessary adjustments buttressed. If the EC (and the Portuguese government) wants to avoid a socially disruptive integration process it will probably have to design more appropriate policies and programmes.