

## THE EC's PRE-ACCESSION AID TO PORTUGAL. A FIRST APPRAISAL (\*)

*Michael Dauderstädt* (\*)

### 1 — The dilemmas of accession and aid

Since Portugal formally applied for membership on 28 march 1977, there has been a lot of scepticism about the effects of accession. Even the EC Commission itself considered Portugal's membership as a political necessity rather than an economic opportunity<sup>(2)</sup>. Most experts<sup>(3)</sup> analyzing the possible effects of free trade on Portugal expected it to be squeezed between high-tech, high-productivity competitors from the old EC-9 and 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 country should receive from the EC.

However, the political considerations have been imperative on both sides, Portugal's as well as the EC's. Accession should strengthen and stabilize the young Portuguese democracy by integrating it in the community of the European democracies. At the time, few people<sup>(4)</sup> cared about the trade-offs between political stability and the economic adjustments membership was bound to demand from Portugal.

In order to adjust, Portugal had and still has to modernize and overcome social and economic rigidities resulting from, among other things, decades of corporatist economic management favouring the protection of economic and social structures and the respective classes from structural change, modernization, and competition (e. g. via the notorious «condicionamento industrial»). In the short run, modernization might not even be in the interest of those more interested in political stabilization of the democratic regime since the modernization process might provoke opposition by social groups supporting this very

---

(\*) Instituto de Estudos para o Desenvolvimento, Lisboa. Friedrich-Ebert-Stiftung.

(1) An earlier, shorter and less elaborated version of this article has been published in *Intereconomics* 2 March/April 1986, vol 21.

(2) See EC-Commission (1978 d), pp. 7-10.

(3) Just to name a few: see DIE (1977), DIE (1978), GDI (1980), EßER (1977), Tsoukalis (1981), and Vaitos (1982).

(4) Notable exceptions have been Deubner (1982), and, of course, the perpetual opponents of accession like e. g. the Portuguese Communist Party (PCP).

regime<sup>(5)</sup>. It is more than probable that the adjustment process will worsen the economic situation of relevant parts of the Portuguese population. In the case of agriculture and some sensitive industries (steel, shipbuilding, etc.), this might even lead them to support the PCP which is the only important political party against Portugal's accession to the EC or in favour of a re-negotiation of the treaty. On the other hand, real modernization might require fundamental reform of the established Portuguese politics and polity. But the Portuguese political establishment cannot be antagonized by the EC since it is the political basis of accession.

Hence a dilemma between economic and political, short and long term objectives. While short-term political stability requires economic stability, long-term economic development requires structural change, which often implies political change as well. On the other hand, avoiding economic adjustment and change leads to economic decline and, thus, to political instability in the long run.

This situation becomes even more muddled when foreign aid enters the picture<sup>(6)</sup>. Aid results from various interests. Above all, aid donors have been interested in the political stabilization of the recipient country, mainly to protect their economic interests there like foreign investment, export markets or sources of raw material supply. Moreover, economic and social development has been considered a crucial means to that aim though with the important reservation that it should not endanger the donor's economic interests. Eventually, with the establishment of the aid bureaucracy, its internal functional requirements have increasingly dominated the concrete outlook of aid programmes.

Portugal is no exception from that rule. Political considerations dominated its aid relationship with the EC. Had it not been for the 1974 revolution and the subsequent danger of Portugal leaving the western block, EC aid would have been given much later or not at all. The «pure» developmental goal to alleviate adjustment pressures stemming from freer trade would not have been important enough to bring about an EC aid program as one can see from the fact that the EC did not offer such aid after the signing of the Free Trade Agreement of 1972. And the case of Greece shows that the continuation of aid also depends mainly on political circumstances. It was Greece's bargaining power in the context of Portugal's and Spain's accession rather than its post-accession difficulties that led to a substantial increase of EC aid to Greece. On the other hand, the economic problems of Greece (deterioration of the balance of payments, increasing foreign debt, and, thus, austerity at home) have more recently (in November 1985) led to political instability, too.

This article will analyze the problems outlined above in greater detail. After describing the EC's pre-accession aid it intends to show how the political

<sup>(5)</sup> For a more detailed analysis of this aspect, see Deubner (1982).

<sup>(6)</sup> See Dauderstädt (1985).

and economic interests as well as the administrative rules and procedures have produced a program which hardly seems fit to remedy the weaknesses of the Portuguese economy.

## 2 — Survey of the aid program

In the 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 following measures:

TABLE 1  
Survey of pre-accession aid programs by the EC

Year	Program	Amount (7) (millions of ECUs)
1975	Emergency aid program (only EIB loans) .....	150 (180)
1978	Financial protocol (only EIB loans) .....	200 (230)
1980	Pre-accession aid proper (EC budget and EIB) .....	250 (275)
1983	Second pre-accession aid program (only EIB loans) .....	75
1984	Third pre-accession aid program (EC budget and EIB) .....	200
	<i>Total</i> .....	875

Sources: EIB annual report: Comunidade Europeia 24 (ano vi, Maio de 1985).

It is useful to consider some general aspects of all programs and projects of the pre-accession aid before entering into a more detailed analysis. The total aid program comprises loans as well as grants. The loans are provided by the European Investment Bank (EIB) while the grants are financed immediately by EC budgetary funds. The latter is usually called the «action commune». Interest rates and terms of the 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 program of 1975 the interest rates increased with the world-wide rise of interest which, of course, also increased the EIB's cost of refinancing loans.

### a) The emergency aid program of 1975

The first (emergency aid) program of 1975 was primarily a political decision, intended to strengthen the young and still unstable Portuguese democra-

<sup>(7)</sup> 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 EIB.

cy while having nothing to do with the future prospects of EC membership, at least not from a political point of view. On October 6/7, 1975 the EC council decided to give Portugal EIB loans worth 150 million ECUs. Interest payments have been subsidized by 3 % with 30 million ECUs from the EC budget. The following table shows the investment projects financed by these loans.

TABLE 2

**The projects of the emergency aid program of 1975 <sup>(a)</sup>**

Project	Amount (millions of ECUs)
Powerplant (oil-fired) in Setubal (EDP) .....	35
Pyrit ash treatment and copper metallurgy project in Barreiro .....	20
Hydro-electric power station in Pocinho (EDP) .....	20
Leixões harbour .....	16
Irrigation system in Macedo de Cavaleiros .....	15
Global loan to Banco de Fomento Nacional (BFN) .....	15
Irrigation system in Odivelas, Vigia .....	12
2nd global loan to BFN .....	9
Lisbon harbour .....	8
<i>Total</i> .....	150

Global loans are credits provided by the EIB to Portuguese financial institutions (partly development banks) that are supposed to finance indirectly small projects. The two global loans to the BFN have been earmarked for the promotion of small and medium scale industry (SMI) and small and medium tourism projects. Until the end of 1984, 94,4 % of the funds of the emergency aid program were disbursed, i. e. virtually all except a part of the irrigation project in Macedo.

**b) The financial protocol of 1976**

The financial protocol between the EC and Portugal was signed on September 20, 1976 and came into force on November 1, 1978. Again, the objective of this program 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 the interest of the EC in supporting the Portuguese efforts to strengthen democratic order and economic and social development.

<sup>(a)</sup> The sources for the tables 2-8 are various issues of *Europa Informação* (in particular n° 8, ano 1) and papers by the Gabinete para a Cooperação Económica Externa and the EIB.

It comprised 200 million ECUs of which 150 million carried 3 % interest subsidies — financed by 30 million ECUs from the Community budget. The following table lists the projects of the financial protocol.

TABLE 3

**The project of the financial protocol of 1976**

Project	Amount (millions of ECUs)
With subsidized interest rates:	
Lisbon-Algarve highway .....	31
Aveiro harbour .....	30
High voltage power line in Setubal (EDP) .....	20
Eucalyptus plantation (CELBI 11, CAIMA 7) .....	18
3rd global loan to the BFN .....	15
Global loan to Caixa Geral de Depósitos (CGD) .....	15
Madeira airport .....	11
Control of the electricity despatching system (EDP) .....	10
Without subsidized interest:	
Plant for glass fibre and plastics production (QUIMIGAL) .....	8
Modernization of a chemical plant (QUIMIGAL) .....	17
Cement production (CIMPOR), in Souselas, 1st portion .....	10
Cement production (CIMPOR), in Souselas, 2nd portion .....	15
<i>Total</i> .....	200

Until the end of 1984, 84,3 % of the funds were disbursed. Delays have been caused by the projects in Aveiro (harbour), the Lisbon-Algarve road, the reforestation project, and the EDP control center.

**c) The pre-accession aid of 1980**

On march 28, 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 3, 1980 the pre-accession aid agreement was signed. With the further delay of the Act of Accession, two supplementary aid programs followed in 1983 and 1984.

The aid comprised EIB loans worth 150 million ECUs as well as grants from the EC budget worth 125 million ECUs. 25 million ECUs of the budgetary funds were earmarked to subsidise the interest on a great portion of the EIB loans, namely 125 million ECUs. Hence, the amount that really could be invested in Portugal was 250 million ECUs. The following table gives a detailed survey of the projects financed.

TABLE 4  
The projects of the pre-accession aid of 1980

Project	Amount (millions of ECUs)
EIB loans:	
4th global loan the BFN	30
2nd global loan the CGD	20
Coal-fired power plant in Sines	35
Global loan to the Sociedade Portuguesa de Investimentos (SPI)	5
Airports in Porto and Faro	35
<i>Total of subsidized loans</i>	125
Aveiro-Vilar Formoso road (not subsidized)	25
<i>Total EIB loans</i>	150
Projects financed by budgetary funds («action commune»):	
SMI promotion	10
Regional policy measures	51
Agricultural policy measures	23
Vocational training	15
Introduction of the VAT (studies)	1
<i>Total EC budget</i>	100

Until the end of 1984, 61 % of the EIB loans were 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.

In the following paragraphs we will take a closer look at the four «action commune» programs:

The SMI promotion-program comprised four sub-programs, viz.:

- 1) Professional training of officers;
- 2) Technical assistance to SMI enterprises;
- 3) Loans for modernizations of enterprises considered to be of general economic and social interest;
- 4) Training of IAPMEI experts (IAPMEI is the national SMI promotion institute).

The regional policy measures are listed in the following table:

TABLE 5  
Regional policy projects of the «action commune»

Project	Amount (thousands of ECUs)
Roads (Porto-Bragança, Aveiro-Vilar Formoso)	30 000
Moncorvo airport	350
Navigability of the Douro river	6 000
Açores	2 000
Of which:	
Reforestation	101
Roadworks	831
Refrigeration plant in Pico	450
Fishing boat	618
Madeira (motorway at Funchal)	2 000
Schools	5 090
Industrial parks	4 320
Sewage system in the Algarve	1 430
<b>Total</b>	<b>51 190</b>

The following four sub-programs were oriented towards improving the Portuguese agriculture:

- 1) Market organisation (a consulting service for an accounting and market information system);
- 2) Measures to increase agricultural productivity (5 programs for cattle-breeding, dairy, horticulture, etc.);
- 3) Measures to restructure land use (a re-forestation project and a land-register for viticulture);
- 4) Irrigation projects (construction of a dam, among others).

In the field of vocational training the «action commune» financed 10 training centers in Aveiro, Beja, Bragança, Castelo Branco, Faro, Portalegre, Santarém, Tomar and Vila Real.

#### d) The two extensions of the pre-accession aid of 1983 and 1984

The first extension was composed of EIB credits worth 75 million ECUs, where as the second one comprised EIB credits (amounting to 150 million ECUs) and grants out of the EC budget (amounting to 50 million ECUs). These funds were invested as shown in the following two tables.



TABLE 6  
The EIB projects of the 1st extension

Projects	Amount (millions of ECUs)
2nd portion of coal-fired power plant in Sines (EDP) . . . . .	25
3rd global grant to CGD . . . . .	20
2nd global grant to SPI . . . . .	10
Locapor (leasing company) . . . . .	5
Electricity network in the Azores islands . . . . .	15
<i>Total</i> . . . . .	75

TABLE 7  
The EIB projects of the 2nd extension

Projects	Amount (millions of ECUs)
Porto-Vila Real road . . . . .	18
Bridge over the Douro river . . . . .	32
Roads between Aveiro, Viseu, Celorico and Guarda . . . . .	20
3rd global loan to the SPI (jetzt BPI) . . . . .	15
Part of the highway (Brisa) . . . . .	20
4th global loan the CGD . . . . .	15
3rd portion of the power plant in Sines (EDP) . . . . .	30
<i>Total</i> . . . . .	150

With regard to budgetary part of the 2nd extension worth ECUs 50 millions, the EC explicitly wants to use these funds to modernize Portuguese agriculture and fisheries. The program 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<sup>(9)</sup> issued by the Ministry of Agriculture that is responsible for the program, ECUs 44.5 millions will be invested in the Portuguese mainland, 5 millions in Madeira and the Azores, and ECUs 500,000 in the fisheries sector. While a definitive list of projects has not yet been published available information indicates a number of approx. 45 different projects, mainly in the field of infrastructure (slaughter houses, whole sale markets, pack-houses, etc.).

<sup>(9)</sup> See DN of August 7, 1985.

At the end of this first survey, we will analyse the distribution of pre-accession aid by regions, industries, and sectors (public or private). The following table shows the respective percentages for all EIB loans since 1975, i. e. ECUs 725 millions.

TABLE 8  
Distribution of EIB loans

Industry	%	Region <sup>(10)</sup>	%	Sector	%
Manufacturing . . . . .	34	North . . . . .	35	Public enterprises . . . . .	43
Energy . . . . .	26	Center . . . . .	15	Private sector . . . . .	27
Agriculture . . . . .	6	South . . . . .	46	Public administration . . . . .	30
Infrastructure . . . . .	34	Madeira . . . . .	2		
		Azores . . . . .	3		

The distribution by sector and industry is most striking. Of the industries, energy and transport infrastructures 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 labor among various donor agencies (the World Bank and e. g. the German bilateral technical assistance are focusing 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  $\frac{3}{4}$  (73 %) of all funds.

The regional distribution, however, meets more the expectations of a development approach aimed at correcting existing distortions: the center with the capital Lisbon and its agglomeration advantages received only a small share, viz. 13 %.

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 8. Again, the lion's share, approximately 55 % was invested in infrastructures. 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 program (reforestation and a survey of the area under viticulture, i. e. sub-programs 3 and 4). Such a view already includes already the market reorganization projects into the agriculture. The manufacturing industry received only 10 % via the SMI promotion agency IAPMEI. The 15 % earmarked for the 10 vocational training centers are difficult to allocate. The private sector, however, got again only a minor part, viz. about 22 % of the «action commune». That figure includes the indirect aid via e. g. the IAPMEI.

<sup>(10)</sup> The regional distribution does not include the global loans (totalling 174 million ECUs).

The picture changes somewhat in favor of the agricultural and fisheries sector if one considers the last ECUs 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 channeled into infrastructure and the public sector.

### 3 — The administrative and political process

The relationship between Portugal and the EC has always been subject to many influences. Above all others, it was political considerations that determined the attitude of the EC towards Portugal. Portugal's accession has been regarded as a means to strengthen its democracy but, at the same time, as a burden for its economy<sup>(11)</sup>. 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 the 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 a comprehensive modernization and structural adjustment of 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 two 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, as we will see in the following part.

On the EC's side, foreign aid never has been one of the top priorities<sup>(12)</sup>. Already in budgetary terms it is a residual amount in comparison to the huge expenditures for the Common Agricultural Policy (CAP). Less egoistic parts of the EC apparatus like the EC Parliament and the Commission have always tried to expand it while the Council tended more to represent the vested interests of member states and their national pressure groups.

With regard to the pre-accession aid to Portugal, the total amount of the Community's budgetary aid is determined together with the EC budget in a complicated interaction of Commission, Council and Parliament. Once determined,

<sup>(11)</sup> See EC-Commission (1978), p. 7.

<sup>(12)</sup> With regard to the EC decision making structure, see also Dauderstädt et al. (1982).

its use (the projects) is subject to negotiation between Portugal and the EC. The final decision about the «action commune» lies with the EC Commission and the Council or its operative delegate body, the COREPER (the Council of Permanent Representatives). In the case of EIB loans, it is the EIB Board of Directors that decides. The board consists of representatives of the member states, mainly central bank or treasury officials, and a representative of the EC Commission. As a matter of fact, 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 program, a subprogram of the «action commune»<sup>(13)</sup>.

This highlights another 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 eye of the losers in the old member states<sup>(14)</sup>.

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 favor specific recipients. In theory, there is only one institution responsible for the co-ordination of all bi- and multilateral aid Portugal is receiving: the Office of Economic Co-operation (GCEE — Gabinete para a Cooperação Económica Externa) that is part of the Ministry of Finance and Planning. For political reasons, however, the Secretariat of State for the European Integration (SEI) wanted to control pre-accession aid without being experienced in the management of foreign aid (eventually, it had to lure three employees of the GCEE into doing this work for the SEI). The conflict ended with a political compromise that led to more red tape and a poor co-ordination between the two parts of the pre-accession aid: the GCEE kept the EIB loans which it had managed since the emergency aid program while the SEI got control over the «action commune» from the EC budget. This is fairly characteristic of the way the Portuguese administration works as another example shows. When the responsibility for the aid from the EC's Regional Fund was to be decided upon, the Ministry of Finance and Planning and the Ministry of the Interior both wanted to control

<sup>(13)</sup> See *Europa Informação*, ano 1, n° 8, Junho 1983, p. 15.

<sup>(14)</sup> See the very lucid analysis by Cravinho (1984); the problem is analyzed more generally in Dauderstädt/ Pfaller (1985).

it. The political hassle even threatened to delay the submission of the Portuguese project list. Only with the massive support by other donor agencies which had already identified and prepared such projects, an embarrassingly poor performance could be avoided.

With the total amount of aid determined, the Portuguese Government then has to decide how much the private and the public sector will receive. Within each sector, projects have to be identified, prepared, and approved. This is partly done by regional and/or sectoral authorities. The 50 million ECUs program for the Portuguese agriculture, for instance, is managed by the Ministry of Agriculture for the SEI. Within the Ministry, the responsibility lies with the Gabinete de Planeamento which receives project proposals from the regional directorates. While these regional authorities are fairly open to «clientelistic» influences (doing local big shots a favor), the Gabinete de Planeamento evaluates the projects in a more technocratic manner (like most donors expect).

The Portuguese authorities also have to take into account during the project identification that the EC's pre-accession aid is supposed to finance not more than 50 % of the total costs of the projects. The other part has to be funded from Portuguese sources, in most cases by the government budget, or by the receiving agency often with additional credits. In the future, with Portugal being a full member after January 1, 1986, it will be possible to use money from the EC Regional, Social or Agricultural funds to provide the complementary financing.

Furthermore, 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 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 % 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 <sup>(15)</sup>.

The projects submitted by the Portuguese authorities (after the above described process) are evaluated by the EC or the EIB. The EIB applies the normal cost-benefit analysis assessing the financial and economic soundness and technical feasibility of the projects proposed. The Portuguese side has to provide the documentation necessary for the evaluation. The decision process is often lengthy and delayed because of missing or incomplete documentation. Eventually, the EC/EIB might even reject a bad project. Unfortunately, such a

<sup>(15)</sup> See also the sceptical view by Lampe (1983).

project blocks other, better projects during the (possibly very long) time of its evaluation since the EC refuses to consider more projects than they will eventually approve.

During the process of project evaluation and approval, there is enough time and opportunity for European economic and political interests to influence the decision-making as we have seen above. On the other hand, the professional evaluation, in particular by the EC, keeps truly absurd projects from being implemented. The EIB already refused to join some projects Portugal proposed. But that does not mean that the remaining projects contribute to the long-term development and the modernization of the Portuguese economy and improve its capacity to cope with the effects of accession.

Obviously, the administrative process by itself 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 295,340 ECUs in 1960 to over 8 million in 1982) <sup>(16)</sup>. This makes it impossible to identify, evaluate and implement thousands of microprojects, in particular in a relatively far-off place like Portugal where the EIB has no special experience.

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 in a very different way from which they have managed their own funds. And it is exactly this traditional, clientelistic (and, in former times, corporatist) modus of allocating capital that has contributed so much to the under-development and structural weaknesses of the Portuguese economy.

To a certain extent, the EIB's global loans intervene in the basic structure of Portugal's capital «market» though in a politically dubious way. After the 1974 revolution Portugal nationalized its banking system. Accession to the EC and the application of the «acquis communautaire» ask for an opening-up of the capital market and the right to establish banks, a process that already is under way. In this context it is noteworthy that the EIB provided three of eleven global loans, albeit worth only 30 of 174 million ECUs to a private institution, namely the Sociedade Portuguesa de Investimentos (since 1985: Banco

<sup>(16)</sup> See EIB (1983), p. 104.



Português de Investimentos) although its position in the Portuguese capital market is rather marginal.

The final use of the global loans is rather confidential and no project lists have been published. The EIB assumes in its more aggregate statistics that the Portuguese institutions provided the funds exclusively to private enterprises in the manufacturing industry. According to other EIB documents (17), tourism projects have also been financed from global loans. This would imply that neither public enterprises nor other sectors, in particular agriculture, received credits out of global loans.

Although this section was supposed to deal only with the administrative and political process it 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). But making these critical points we are already entering the following section.

#### 4 — 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:

- a) It is still too early for it since many projects have just started and are not yet likely to show their effects;
- b) A lot of relevant information is still confidential or hard to come by, in particular concerning the global loans;
- c) It would by far exceed the scope of this article.

However, as we have tried already above, it is possible to make some critical comments about the fundamental principles and policies guiding the EC's aid program.

Our main point here is that the solutions the EC offers are not compatible with the problems Portugal suffers from. The EC's instruments do not reach the weak points of the Portuguese economy and society. The EC is trying to eat the soup with a fork. Its intentions may be good (often they are not), but the means it employs are not able to accomplish them. Portugal's basic economic weaknesses that make it hardly fit to join the EC are the result of a long history. During that long time, Portugal has developed a political culture and societal structure of sorts that is oriented towards distributing existing wealth or easy opportunities for enrichment via protection and clientelistic machi-

(17) See *EIB Information*, n° 45, July 1985.

nations 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 the people playing the same old game (18). 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.

The above analysis of the administrative process has already confirmed this point of ours with regard to the specific biases of the EIB programs (big investment). A closer look sector by sector will provide further corroboration:

*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 Setúbal, got 55 million ECUs in two portions. The second one, in Sines, supported by 60 million ECUs in two portions, is the single biggest project of the whole pre-accession aid. It is a coal-fired power plant and 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 though by increasing its cost considerably.

However, this (and other similar) project(s) 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 (19) shows that between 1975 and 1980, Portuguese electricity consumption has increased 2.5 times as fast as the receipts. This indicates a lopsided price policy, subsidization of specific consumption, and lacking control. Another aspect of this are the huge liabilities of the local and national authorities vis-à-vis the EDP that are caused by this policy of subsidizing energy, e. g. via the Fundo de Apoio Térmico (20). 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 are 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-head energy consumption. It neglected the fact that forecasts of energy demand have been

(18) For a more detailed analysis of Portugal's political economy, see Bruneau/Macleod (1985), in particular chapter 10 on «The politicized role of the State in the economy».

(19) See *DN* of August 16, 1985.

(20) See *O Jornal* of January 24, 1985.



notoriously wrong in the past 15 years, at least in the OECD countries (e. g. the West Germany). It also disregarded the successful de-linking of energy consumption and economic growth in the other OECD 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. Other deficiencies offer much more opportunities for 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. There are hardly any signs giving directions. 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 km of damaged roads, some of which had to be closed to traffic. Repairing them would cost about 20 million ECUs. In the city budget, only 150,000 ECUs are available for roads<sup>(21)</sup>. 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 the 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 (see above) and make up two thirds of all EC funds received by the manufacturing industry. The remaining third has been invested in three big projects in the chemical and cement industry. All three projects belong to public enterprises of which one (QUIMIGAL) operates with substantial losses. Assessing the aid in this industry depends thus on the evaluation of the global loans and of the activities the IAPMEI was undertaking with the funds provided by the «action commune». Both programs, 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 the integration. The SMI is still dominating the 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 consist of enterprises with a labor force of less than 100. But does the EC's aid really reach them?

<sup>(21)</sup> See DN of August 26, 1985.

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 program run by the IAPMEI totalled more than 25 million ECUs (only partly EC funds). About 120 enterprises are going to benefit from the program. That makes the average investment subsidy amount to about 200,000 ECUs. According to a list of the 1,600 biggest SMI enterprises published in March 1985, these enterprises had sales between 6 and 2 million ECUs. In 1980, about 10 % of the gross production value have been invested in the manufacturing industry<sup>(22)</sup>. That indicates that only the very big enterprises of the SMI could possibly absorb such an additional investment.

Information on the global loans is also difficult to come by. The EIB says that 200 undertakings have been financed out of global loans totalling 144 million ECUs<sup>(23)</sup>. That implies an average investment of 720,000 ECUs 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.

In terms of their employment effect (a rather important aspect in the Portuguese context), the published data show also huge efficiency differentials between the loans of the CGD and the BFN. Costs per job created have been 16,000 ECUs with the former and 2,400 ECUs with latter. This may be due to woolly statistics or to capital intensity differentials between the promoted sub-sectors. But then, why has not been more invested in less capital intensive projects?

Therefore, it seems more than questionable that the programs really «pick winners». More probably, those will benefit who have already 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 centers who are most likely to suffer from post-accession shocks will not belong to the happy few.

Unfortunately, the available data do not give a sub-sectoral break-down 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 the agriculture.

*Agriculture.* — This key sector has been neglected by 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

<sup>(22)</sup> See *Estatísticas Industriais 1980*, vol. II, S. XLVII.

<sup>(23)</sup> See *EIB Information*, n° 45, July 1985, p. 5.

working in this sector produce only 7.5 % of the GDP. This has led to a shortfall in supply despite high prices (partly above the EC level that is already artificially high above world market prices) and contributed substantially to the trade deficit (18 % of the deficit are due to agricultural imports).

The causes of that 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 sub-ordinated 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 the 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 to reform that situation thoroughly is beyond the EC's capacity and the author's imagination.

The overall picture confirms our view: the 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 dispose of the instruments necessary for this task, and the Portuguese side lacks the political will and the administrative machinery to do it, although the public rhetoric and the written programs 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. This is particularly obvious in the case of agriculture. The Commission stated:

The difficulties affecting Portuguese agriculture and preventing its potencial from being used to the full are social and structural. In order to improve productivity and production techniques, it is necessary to make changes in the land tenure structure; in particular, this involves an increase in the size of farms and less fragmentation, especially in the north of the country, injections of capital and improved vocational training for farmers <sup>(24)</sup>.

But the reality of the aid program looked different. Agriculture was not only the sector that received the smallest part of funds but most of the critical

<sup>(24)</sup> See EC-Commission (1978 d), p. 12.

points are out of the reach of the EC's instruments. Capital has been invested in infrastructure and not in the farms themselves. Vocational training for farmers played a very minor role in the program. And reform of the land tenure is obviously a problem for Portuguese politics rather than EC aid.

Basically, many people in Portugal will benefit from an increased energy supply and a better transport, i. e. road system. But the main benefactors may not be 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. The EC's aid cannot tackle what Cravinho <sup>(25)</sup> calls the «micro foundations of the crisis» which are of a financial, organizational and behavioral nature.

Surely, a definitive judgment should be based on a more comprehensive investigation. But a rather sceptical view seems appropriate considering the above analysis. Many questions remain: Did the SMI really get access to the global loans? Who will benefit from a better transport (i. e. road) system into the Portuguese hinterland? Will it reinforce or counteract existing regional imbalances? Will it help the producers in peripheral regions to enter the markets of the center or will it rather permit the big 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. Making modernization socially more acceptable interferes in Portugal with various problems. Portugal is a very poor country by European standards and has been subject to two severe austerity periods since 1974. Within this cyclically aggravated structural social crisis, Portugal has shown remarkable stability and little social unrest. It seems that this is largely due to a complex pattern of compensatory mechanisms (ranging from rent control to the shadow economy) which normally elude traditional types of scientific analysis and economic policy <sup>(26)</sup>. However, Portugal's integration in the EC, the resulting adjustments, and the pressures to liberalize markets and harmonize various policies are bound to break up at least some of these mechanisms without being prepared to provide substitutes. In the case of success, which is optimistic, EC aid and Portuguese efforts will bring about a more productive (and thus competitive) agriculture and industry. But if they cannot increase markets and output the same way this will only lead to increased unemployment.

<sup>(25)</sup> Cravinho (1986), p. 136 ff.

<sup>(26)</sup> For a detailed description of this situation, see Sousa Santos (1986).

Pre-accession aid seems unlikely to have contributed to making the modernization process socially more acceptable. Post-accession aid might change the picture somewhat. As a member state, Portugal has access to regular EC funds. Projects financed by the European Social Fund will certainly put an end to the relative neglect of training in the pre-accession aid program. Grants from the European Fund for Regional Development will complement EIB loans and thus reduce substantially the burden for the Portuguese budget in the financing of big infrastructure projects. The agricultural sector will probably receive enormous funds from the Guidance part of the European Agricultural Fund as well as the EC's special aid program for the Portuguese agriculture.

But all these funds and programs are still subject to many of the constraints and interests we have discussed in the case of pre-accession aid. Thus, it is quite likely that neither they nor the Portuguese national economic policy will be more successful in reaching the disadvantaged sectors of the Portuguese society. It is the already privileged groups that are mainly benefitting from both policies and that get their necessary adjustments buttressed. If the EC (and the Portuguese Government) want to avoid a socially disruptive integration process they will probably have to design more appropriate policies and programs.

#### BIBLIOGRAPHY

- ALBURQUERQUE, L., et al. (1984) — *A Agricultura Portuguesa no Período 1950-1980*, IED, Lisboa.
- ALVARES, P., and FERNANDES, C. R. (1980) — *Portugal e o Mercado Comum*, vols. I e II, Lisboa.
- BRUNEAU, T. C., et al. (eds.) (1984) — *Portugal in Development. Emigration, Industrialization, the European Community*, Ottawa.
- BRUNEAU/MACLEOD (1986) — *Politics in Contemporary Portugal: Parties and the Consolidation of Democracy*, Boulder.
- CRAVINHO, J. (1984) — «Structural adjustment in Portugal in the face of entry to the EEC», in Bruneau et al. (eds.) (1984).
- CRAVINHO, J. (1986) — «The Portuguese economy: constraints and opportunities», in Maxwell (ed.) (1986).
- DAUDERSTÄDT et al. (1982) — «The outlook for Community policy on cooperation with the developing countries in the light of changing North-South relations and the future development of the Community», *Europe Information. Development* (X/301/81), Brussels.
- DAUDERSTÄDT, M. (1985) — *New Names for Old Games. The Anatomy of Aid*, Bonn.
- DAUDERSTÄDT/PFALLER (1985) — *The New Zero-Sum World. International Competition and Global Economic Growth*, Bonn.
- DEUBNER, C. (1982) — *Spanien und Portugal: Der unsichere «Europäische Konsens». Der Beitritt zur EG als soziales und innenpolitisches Problem*, Baden-Baden.
- DIE (ed.) (1977) — *Zur Erweiterung der Europäischen Gemeinschaft in Südeuropa*, Berlin.
- DIE (ed.) (1978) — *Europäische Gemeinschaft und südeuropäische Beitrittsländer. Anforderungen an die Integrationsfähigkeit*, Berlin.

- EC-Commission (1978 a) — «Enlargement of the Community. General considerations», *Bulletin of the EC*, supplement 1/78, Brussels.
- EC-Commission (1978 b) — «Enlargement of the Community. Transitional period and institutional implications», *Bulletin of the EC*, supplement 2/78, Brussels.
- EC-Commission (1978 d) — «Enlargement of the Community. Economic and sectoral aspects», *Bulletin of the EC*, supplement 3/78, Brussels.
- EC-Commission (1978 d) — *Opinion on Portuguese Application for Membership*, Brussels.
- EIB (1983) — *25 years. 1958-1983*, Luxembourg.
- EßER, et al. (1977) — *Portugal, industrie und industriepolitik vor dem Beitritt zur Europäischen Gemeinschaft*, Berlin.
- GDI (ed.) (1980) — *Portugal's Industrial Policy in Terms of Accession to the European Community*, Berlin.
- LAMPE, G. R. d. A. S. M. (1983) — *Effects of Community Structural Grants and Loans to Portugal*. Thesis, Bruges.
- MAXWELL, K. (ed.) (1986) — *Portugal in the 1980's. Dilemmas of Democratic Consolidation*, New York, Westport, London.
- SOUSA FERREIRA (ed.) (1983) — *Integração Económica. Teoria — CEE — A Adesão de Portugal*, Lisboa.
- SOUSA SANTOS, B. de (1986) — «Social Crisis and the State», in Maxwell (ed.) (1986).
- TSOUKALIS, L. (1981) — *The European Community and its Mediterranean Enlargement*, London.
- VAITSOS, C. (1982) — «Efeitos económicos do segundo alargamento», in Sousa Ferreira (ed.) (1983).

#### DAUDERSTÄDT, Michel — As ajudas de pré-adesão da CEE a Portugal. Uma primeira abordagem.

Este artigo descreve e avalia as ajudas de pré-adesão da CEE a Portugal. Dá uma panorâmica detalhada de todos os programas de ajuda desde 1975. A análise dos processos políticos e administrativos mostra que ambos os lados, Portugal e a CEE, são incapazes de canalizar as ajudas para os agentes que realmente precisam delas ou que melhor uso lhes dariam. Particularmente, a agricultura e as pequenas e médias empresas são virtualmente cortadas dessas ajudas apesar de serem provavelmente muito afectadas pelos efeitos da adesão. A avaliação sectorial corrobora que as ajudas são pouco prováveis de promover os ajustamentos e a modernização da economia portuguesa.

#### DAUDERSTÄDT, Michel — The EC's pre-accession aid to Portugal. A first appraisal.

The present article describes and evaluates the EC's pre-accession aid to Portugal. It gives a detailed survey of all aid programs since 1975. The analysis of the political and administrative process shows that both sides, Portugal and the EC, are unable or unwilling to channel the aid to the recipients who really need it or make the best use of it. In particular, agriculture and small and medium enterprises are virtually cut off from the aid although they are likely to be very much affected by the effects of accession. The sectorial evaluation corroborates that the aid is unlikely to promote adjustment and modernization of the Portuguese economy.