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REFORM OF THE STRUCTURAL FUNDS

1. Commission Communication
2. Comprehensive proposal pursuant to Article 130 D of the EEC Treaty

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Commission Communication

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INTRODUCTION

Article 130D of the Treaty calls upon the Commission to submit a comprehensive proposal to the Council, the purpose of which will be to make such amendments to the structure and operational rules of the existing structural Funds (European Agricultural Guidance and Guarantee Fund (Guidance Section), European Social Fund, European Regional Development Fund) as are necessary to clarify and rationalize their tasks in order to contribute to the strengthening of the Community's economic and social cohesion and, in particular, to reduce the gap between its different regions and the backwardness of the least favoured regions. The Commission is also invited, in the process, to see how the efficiency of the Funds can be increased and their activities coordinated, both among themselves and with the operations of the existing financial instruments.

The Commission is responding to this request by putting forward to the Council a proposal for a framework Regulation. This sets out the priority objectives for Community action through the structural Funds and determines the contribution which the Funds will make to the furtherance of these objectives, given their allocated tasks; it also explains the general method of implementing structural assistance; finally, it sketches out what the Community is doing to achieve each of the priority objectives.

The Treaty provides for the Council to act unanimously on this proposal within a period of one year, after consulting the European Parliament and the Economic and Social Committee.

The reform proposed will subsequently give rise to implementing regulations, on which the Council will act by a qualified majority.

In this communication, the Commission builds on the guidelines already outlined in its communication "Making a success of the Single Act"¹ and describes the key concepts underlying its proposals for reforming the Funds, and in particular for:

1. concentrating the activities of the Funds on specific objectives;

¹COM(87)100 of 15.2.1987.

2. providing the Funds with adequate financial resources to deal with the problems arising;
3. establishing a new method of operation based on complementarity, partnership and programming;
4. simplifying procedures and improving coordination.

I. CONCENTRATING THE ACTIVITIES OF THE FUNDS ON SPECIFIC OBJECTIVES

A. Five priority objectives

On the basis of the guidelines it has proposed for the financing of the Community budget² and bearing in mind the subsidiarity principle, the Commission has selected five priority objectives on which the activities of the Funds, the EIB and the other financial instruments should henceforth be concentrated. The attainment of these objectives, set out in Article 1 of the framework Regulation, would satisfy the requirements of the Treaty, particularly Articles 130A and 130C thereof, and would help to exploit the Community's economic potential, and in particular its human resources, to the full.

1. The objective of getting the less developed regions to catch up is designed to help boost productive investment and raise productivity growth in these regions to a level above the Community average.

The Community's enlargement and changing economic circumstances have in their different ways made the Community more heterogeneous and more vulnerable than in the past.

The gradual opening up of the peripheral economies has highlighted structural weaknesses which are felt all the more keenly today as those economies are confronted with the challenge of becoming integrated in the large internal market.

2. The objective of converting the declining industrial regions concerns a large number of regions, employment areas and urban communities throughout the Community which are hard hit by crisis in the old-established industries. The sudden collapse of certain sections of industry in the Community is rapidly

²COM(87)101 of 28.2.1987.

destroying the economic base of these areas and making it necessary to convert to new activities which offer alternative employment.

In those areas and in industries such as steel, coal, shipbuilding, textiles, etc. which are particularly affected by restructuring and in which the Community has launched a policy for correcting the malfunctions of the market, the conversion drive must be underpinned by structural action designed to reintegrate them fully into a developing Community economy.

3. Combating long-term unemployment and facilitating the occupational integration of the young are two priority objectives which reflect the need, in the current economic and social climate, to help particularly vulnerable sections of the population. The action taken to help them must focus on the employment situation of such persons throughout the Community. In that way, the Community hopes to give practical shape not only to a form of solidarity but also to efforts to utilize its human resources to the full.

4. The adjustment of agricultural structures and the development of rural areas are two aspects of a single objective closely linked to the reform of the common agricultural policy. Major changes are currently being made to that policy to ensure that it remains one of the mainstays of the Community. The tighter control of prices and markets which will result must be tempered and offset in such a way that the persons affected - farmers (particularly small producers) and the rural community in general - can accept it. At the same time, Community action will embrace rural areas not only for production purposes but also - and more fundamentally - in order to preserve an adequate human presence there. This means that the Community must help those living in rural areas to convert to alternative activities and, more generally, must contribute to the stimulation of economic activity there.

B. Demanding eligibility criteria

The concentration of Community structural action which thus stems from a political choice of a limited number of priority objectives will be reinforced by the selection of demanding eligibility criteria. These are in some cases geographical and in others functional.

1. Geographical concentration

1.1 The less-developed regions covered by the first objective towards which the Commission will be working are those whose per capita GDP, at administrative level NUTS II³ and in purchasing power parities, is less than 75% of the Community average. However, it proposes to add Northern Ireland to the list of regions obtained in that way because of the special situation there. This geographical concentration means that some 28% of the Community population will be covered. This approach is also fully consistent with the definition of regions eligible for national regional aid under Article 92(3)(a) of the Treaty.

1.2 The declining industrial regions likely to benefit from Community support for conversion are those experiencing a high unemployment rate and serious industrial problems. Community assistance will be targeted on a defined geographical area to ensure that resources are used in a concentrated and effective manner. The Commission considers that these regions, employment areas and urban communities should therefore be defined selectively on the basis of those characteristics. The Commission will in particular seek to ensure consistency between the implementation rules for Article 92(3)(c) of the Treaty (regional aids) and assistance from the structural Funds for objective No 2. Community action could thus cover between 12% and 15% of the Community population if account is also taken of areas in which preventive measures are necessary because of sectoral restructuring which is foreseeable or beginning to be undertaken. This figure gives an idea of the sort of concentration the Commission would like to see and compares with the 21% or so of the Community population which currently benefits from ERDF assistance outside the less-developed regions.

1.3 The development of rural areas affected by the reform of the common agricultural policy will receive Community support according to criteria which will also ensure that there is appropriate geographical concentration. The task will be to take into account, in all their diversity, the problems of converting agricultural activities, the spatial constraints on economic activity in general and environmental needs.

2. Functional concentration

The other objectives apply to all twelve Member States. The pursuit of these objectives will have to be related to precise criteria reflecting the functional priorities of the aims to be achieved. Measures to combat long-term unemployment and place young people in employment must be rigorously

³At level II, the Nomenclature of Statistical Territorial Units (NUTS) comprises 167 basic administrative units (e.g. regions, comunidades autónomas). See Eurostat Rapid Reports "Regions", 25.8.1986.

selected - this is vital to ensure that Community action will have the expected effects. Objective socio-economic data will be used and specific priorities established in the implementing provisions to help ensure a fair share-out of Community aid between the large numbers of people eligible under these objectives. As regards the adjustment of agricultural structures, Community action will concentrate on categories of recipients whose income is most affected and on types of measures linked to modernization and rationalization of farms.

II. ADEQUATE FINANCIAL RESOURCES

Concentration of Community measures is a necessary but not sufficient condition for stronger economic and social cohesion. Another vital need is to increase available finance and to spend the money in a more effective way. To deal with the problems arising, the Commission proposes that Fund resources be doubled and rules and techniques adopted to ensure better use of the appropriations.

1. Doubling Fund resources

If the budgetary resources of the structural Funds are doubled in real terms, they will rise from about 7 billion ECU in 1987 to 14 billion ECU in 1992.

The increase in financial resources fits into a coherent framework of restructuring and budgetary discipline. It reflects the importance of sustaining the Community's new momentum over the next five years: achieving growth, closely linked to balanced efforts to gradually complete the large internal market and strengthen economic and social cohesion in the Community.

The need for a large real increase between 1987 and 1992 in the budget resources of the Funds - comparable to that achieved from 1975 to 1983 - stems partly from the accession to the Community of Spain and Portugal. Just to maintain a level of service comparable to the average achieved by the three Funds for the Community of Ten would mean increasing expenditure by about 40% in real terms by 1992.

The Commission's proposals for doubling resources also take account of considerations specific to each objective.

(a) Helping structurally backward regions to catch up

Fund assistance to achieve the first objective must reach the critical mass needed to arrest the gradual deterioration of the last ten years and to develop the real potential of the backward regions.

Whatever indicators are used, it is clear that disparities in standards of living and labour productivity have increased since the early 1970s. Investment has developed less favourably in poor countries than on average for the Community. Indeed, the overall volume of investment in the less prosperous countries of the Community have declined since 1979.

Looking towards the future, we see that the Community's labour force will have grown by about 6.7 million by 1995, and that more than half of these extra workers will come from the backward regions.

The Commission considers that, if there is to be any real prospect of raising capital formation in the regions concerned to levels consistent with a gradual reduction of regional disparities, budgetary aid from the structural Funds of the Community (which is, after all, seeking to create a common economy), must represent at least 2% of regional GDP. This would be equivalent to no more than 0.3% of total Community GDP, a percentage that compares with substantially larger transfers granted by the federal States of the industrialized world to their most depressed regions.

(b) Assisting conversion in declining industrial regions

According to Commission estimates, a large number of Community regions are suffering from serious industrial decline, with major effects on their economic and social fabric. Situations vary widely, since the most acute problems may affect only individual employment areas or parts of urban communities.

Because of the need for further adjustment in the industrial sector, new areas will be affected, and other industrial sub-sectors will have to be restructured.

Although it is primarily up to Member States to take responsibility for remedying these situations, the Community cannot simply remain passive. It also has the benefit of many years' experience of dealing with market malfunctions in major sectors such as steel, coal or textiles, and has acted as a pathfinder by proposing a policy of regulation and aid towards restructuring.

Restructuring is now a highly topical issue. It requires substantially increased financial means, especially in view of the prospect of further extensive labour shedding, in particular in steel and shipbuilding, with other industrial sectors likely to be added. The Community must therefore reinforce support and conversion measures.

The problems are so serious that they cannot be attenuated, let alone solved, without considerable financial means. These will have to be targeted as a matter of priority on conversion in the hardest-hit areas or industrial sectors. The money should be used not only for workers' redeployment, but also for environmental improvement and the setting-up of new economic infrastructure.

(c) Helping the long-term unemployed and placing young people in jobs

There are between 5 and 6 million jobless from all age groups and all the Member States who have been out of work for over a year. Moreover, 5.5 million young people under 25 are out of work, many of whom have had no proper work experience since leaving school several years earlier. They often have no vocational skills.

It is very expensive to put a person back to work after a long period of unemployment; it is also very expensive to provide two years of training to give a young person a skill. The Community would like to demonstrate its solidarity with both long-term and young jobless. The Commission, having assessed the very high cost involved, feels justified in proposing a substantial increase in resources to meet these objectives.

(d) Assisting the adjustment of agricultural structures and the development of rural areas

In view of the process of structural readjustment in agriculture associated with reform of the CAP, and of the need for rural development incentives, a much stronger effort is clearly called for. A greater financial contribution than previously is now needed in the form of socio-structural measures closely linked with changes in products produced by farmers. At the same time, the Community must take on a key role in conversion and the economic stimulation of rural areas, both within and outside backward regions. The new role, which will not neglect the requirements of environmental protection, will mean wider coverage of rural development needs, especially as regards infrastructure and the promotion of activities other than agriculture.

Training needs will grow in the same way. As reform of the CAP leads to a further decline in the agricultural workforce (e.g. through milk quotas) or to greater specialization, increased needs for training will emerge: retraining in the first case, adjustment of skills in the second.

2. Using each ECU to best effect

If the demand that the resources of the Funds should be commensurate with the problems arising is to make real sense, each ECU spent by the Funds must be used to maximum effect. The rules governing the Funds should therefore be flexible enough to ensure that the various forms of assistance are used as judiciously and economically as possible to meet the corresponding needs.

(a) Varying the financial contribution

The Commission is seeking to increase the cost-effectiveness of structural assistance by varying the Community's contribution to the financing of measures. To this end, it proposes that account be taken of such factors as the seriousness of the problems to be solved, the financing capacity of the Member State concerned, and the special significance of the measure from the Community point of view.

(b) Combining grants and loans

To ensure the most efficient combination of loans and grants, the Funds should be able, in association with the EIB and the other lending instruments, to offer the entire range of financing arrangements appropriate to the type of operation and project concerned, i.e. grants, subordinated loans, loans at reduced interest rates, loans at market rates, guarantees granted on the basis of the type of risk encountered, etc.

Rules will be proposed for investment projects suitable for joint financing by loans and grants. To avoid excessive grant aid to projects capable of generating revenue, assistance in the form of grants will be subject to a ceiling, differentiated according to the type of project.

(c) Allocating the resources

With the Fund resources doubled, the Commission sees three aspects to their allocation: the share-out between priority objectives; the share-out between Member States; and the share-out between the structural Funds themselves.

The share-out of resources between objectives depends directly on the Commission's thinking on the strengthening of economic and social cohesion. For budgetary purposes, the political choice of the five priority objectives clearly makes it necessary to produce multiannual forecasts. This is a major task which must now be undertaken in a budgetary context that leaves little room for manoeuvre.

The Commission proposes an increase in the already substantial share of available resources which it allocates to structural measures to assist the backward regions - the central issue of cohesion - since the task here is to make up for the weakness of the financial, administrative and technical resources of the countries and regions concerned.

To this end, the Commission proposes that the resources devoted to structural measures should expand at least as fast as the total volume of appropriations put at the disposal of the structural Funds.

As to the share-out of resources between Member States, while the Commission is in principle opposed to prior allocation of budgetary appropriations, it does consider that for the achievement of objective No 1, some indicative

share-out between the recipient countries should be established. The share-out would apply to a minimum amount of resources, absorbing 75% of the total allocated to objective No 1, and would be based on objective data that reflect the structural backwardness of the regions concerned.

The purpose is to give the recipient countries some certainty about the Community support that will be forthcoming; this will help them in implementing their development strategies.

The Commission intends that the remaining 25% of the total set aside for objective No 1 should be used mainly for measures of a clear Community nature. Indeed the Commission hopes in general, under all the priority objectives, to promote measures of particular relevance to the Community, notably transfrontier measures, measures encouraging cooperation between Member States, or measures involving the dissemination of innovative experiences.

The share-out of resources between the Funds, in accordance with their special tasks, will enable Community support to be channelled to recipients. The share-out will take account of three factors: complementarity between Community and national efforts; the political choice of the five priority objectives; and the measures selected under the Community support framework mentioned below, in response to the needs expressed by the Member States.

The development characteristics of the backward regions and especially their infrastructure need militate in favour of very concentrated ERDF participation in achieving objective No 1. The Commission therefore proposes that up to 80% of ERDF commitment appropriations should be allocated to that objective in the period to 1992.

In view of the features of declining industrial regions, the Commission considers that the task there is above all to mobilize the means for productive investment and for using available human resources to best advantage. A relatively substantial contribution from the Social Fund will therefore be needed in those regions to adjust skills to the development of technology and the needs of new firms.

The bulk of assistance for development or conversion measures in areas concerned by rural development (objective No 5) will come from the EAGGF (Guidance Section), but the ERDF and the ESF will also make their contributions.

These three types of resource share-out (by objective, by country, by Fund) provide an improved means of translating the Community's political choices into action through the structural Funds. However, they require powers which the Commission intends to exercise in full with the help of advisory committees. Each committee will contribute to guiding Community action in the light of the objectives pursued.

The budgetary authority will participate in the definition of the financial framework for the use of the Funds, through the joint preparation of the multiannual financial forecasts and via the annual budget procedure. These two processes will make it possible to determine, for the medium and the short term, the volume and share-out of the financial resources available for the priority objectives.

III. A NEW WAY OF OPERATING: COMPLEMENTARITY, PARTNERSHIP AND PROGRAMMING

The Commission takes the view that although it has steadily improved the working of the structural Funds over the last few years there are still shortcomings which impair the effectiveness and impact of Community assistance. To achieve a real economic impact, not only must the objectives be clearly defined and the resources sufficient: the method used must be appropriate too.

As it promised in its Communication of 15 February 1987, "Making a success of the Single Act", the Commission is proposing a new method. This is based on three concepts: complementarity, partnership and programming.

1. Complementarity

The Commission takes the view that, in accordance with the subsidiarity principle, one major feature of Community action through the structural instruments must be that it should seek to complement the national measures being taken. It should be a response to needs put forward by the Member States, backed up by appropriate analysis and evidence. In the light of the priorities which the Community sets and the limited budgetary resources it can mobilize, the Commission must be able to engage in close consultation with the Member States so as to arrive at a division of tasks between the Community and the national level.

2. Partnership

The Commission hopes that the process of consultation just mentioned will form the foundation for genuine partnership at all levels, from the planning of operations through the various stages of implementation and right down to the assessment of results.

For the recipients of Community assistance partnership represents a guarantee of effectiveness. It requires on the one hand that the Commission will make an effort to ensure simplification and transparency, and will provide technical assistance where it is needed; and on the other that the Commission's partners will make good use of the framework of preparation, monitoring and assessment which is intended to ensure that the measures they take have maximum economic impact.

3. Programming

Programming should make it possible to give Community action the necessary depth and width, while at the same time allowing greater flexibility. Community operations spread over a number of years, with joint action by the Funds, the EIB and the other financial instruments, will be better able to respond to changing economic and social realities. From the point of view of management, the recourse to programming and the gradual disappearance of Community assistance to small projects will make it possible to take a coherent overall medium-term view of the operations to be mounted in pursuit of each priority objective, and to establish a framework for the coordination of these operations.

Community action - a three-stage process

(a) Member States will submit plans explaining their policy and setting out their intentions, notably regarding the use of the Community structural instruments.

(b) The Commission will assess these plans and, in consultation with the Member States and where necessary the regional or local authorities will determine the broad lines of the technical and financial assistance to be supplied by the Community.

This Commission response to the plans put forward by the Member States will take the form of a Community support framework. This framework will reflect the priority attached to the development schemes or conversion measures proposed by the Member States, in the light of Community priorities. The Commission will seek in particular to ensure that these schemes and measures and the action they call for form a coherent whole, and do not run counter to Community policies or become an obstacle to the application of Community legislation. At this stage the Commission might also draw attention to particular measures where prior assessment by the national authorities would help to avoid a negative impact on the environment.

Community support will thus be spread over a period of several years. It will handle each of the measures to be financed in a way appropriate to each of the objectives. It will allow identification of the Funds to be used, the technical assistance needed and the necessary financial resources.

It is also in this Community support framework that discussion between the Community and its partners may in specific cases reveal the usefulness of an integrated programme. An integrated programme would seek to achieve synergy between different measures and to ensure organized convergence of the efforts of different partners with different backgrounds and different responsibilities.

(c) As regards the assistance itself, the Commission proposes that for each objective the emphasis should be on operational programmes. But other forms of assistance would be possible: global grants, part-financing of aid schemes or major projects, and the wide range of lending and financial engineering techniques.

The use of operational programmes would have as its corollary an intensification of monitoring and evaluation. Experience with the management of the various Community Funds and financial instruments shows that the only way to ensure that Community measures are effective in achieving the objectives pursued is constantly to monitor performance and if necessary to reshape the measures in progress in the light of the needs which have emerged.

The Commission also intends to intensify the monitoring of the quality of operations receiving structural Fund assistance, particularly in order to allow full assessment of the provisions covered by the new financial Regulation which it has proposed to the Council.

More frequent use of operational programmes will allow the Community to be a great deal more involved and to maintain a higher profile than in the past in the regions and social groups which most need its help. Community assistance will be better integrated into national, regional or local initiatives, allowing the Community to circulate information and to pass on the lessons of successful schemes to business and labour, thus bringing the "Community multiplier" into play.

IV. SIMPLIFYING PROCEDURES AND IMPROVING COORDINATION

Taking all Funds together, the Commission is currently managing more than 7 000 million ECU in commitment appropriations every year. The fresh grant applications submitted every year by the Member States, taken together with the innumerable payment claims, some of them relating to very small projects of the order of 1 000 ECU, amount to several tens of thousands of cases handled each year by the Commission departments.

These applications are drawn up according to very different criteria and requirements; they are by no means equal in importance from the point of view of their economic impact or their political significance; but every one of them means that something is expected of the Community.

The purpose of the reform of the structural Funds which has been outlined here is to enable the Community better to respond to that expectation. This will also mean simplifying the working of the various structural assistance instruments.

Management by objectives, programming, and the establishment of partnership between the Commission and the national, regional and local authorities are moves in this direction. Closer alignment of the technical rules and procedures will complete the process.

But simplifying does not mean relaxing. Indeed the Commission will be proposing greater rigour in financial management. The Community should be in a position to offer technical assistance to Member States who ask for it in order to enable them to take full advantage of the support it gives them. And by means of multiannual budget management of the Funds as a whole, the Commission will seek to ensure overall consistency in the Funds' activities, using its powers of management and following the guidelines established in the framework Regulation.

To give practical shape to such budget management, the Commission does not intend to propose any substantial changes to the principles and rules governing the preparation or presentation of the budget in respect of the structural Funds. However, the Commission will be proposing provisions enabling the Council to entrust the Commission with the task of ensuring that the financial guidelines of the framework Regulation are observed, and specifying the arrangements for keeping the budgetary authority informed.

