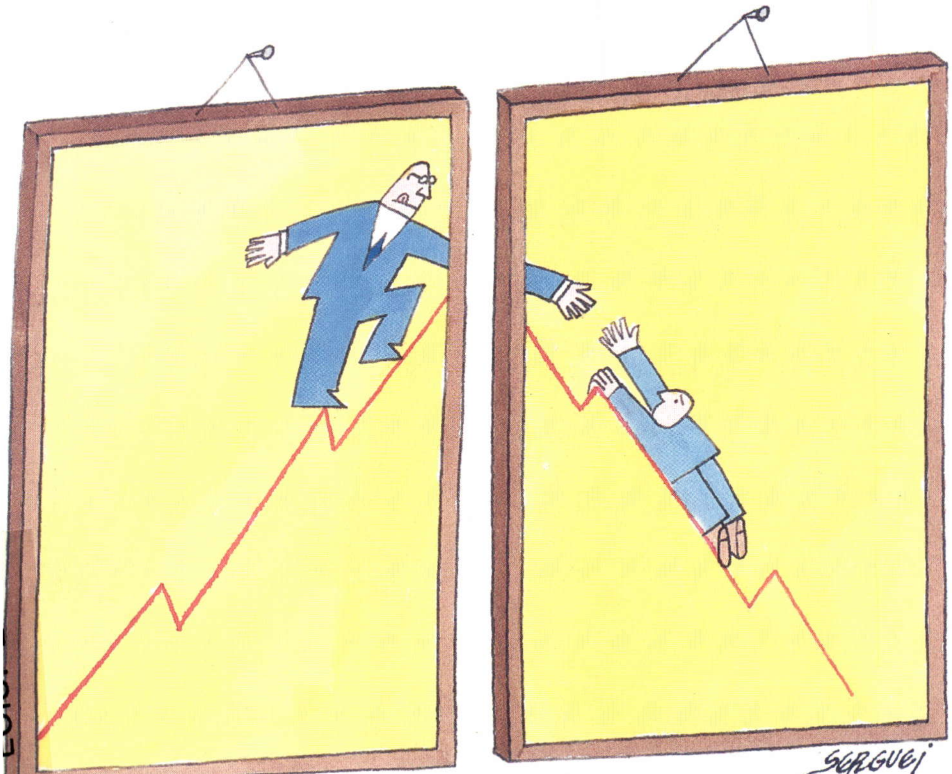
THE EUROPEAN UNION'S COHESION FUND



Europe on the move

Economic and social convergence within the European Community is one of the prime aims of the Treaty of Rome. Community structural policies introduced for that purpose have helped achieve some reduction in the regional differences and structural handicaps of certain Member States. By aiming to introduce an economic and monetary union before the end of the century, the European Union has added a new dimension and given a new meaning to the notion of 'economic and social cohesion'. Participation in 'cohesion' is a pre-condition for participation in the future single European currency. For the governments of the less prosperous Member States, however, this represents a new and difficult challenge: they must spend less while investing more. It was precisely to help those countries overcome this paradox that the Cohesion Fund was set up in 1993 and provided with ECU 15 billion over seven years to finance key environmental and transport infrastructure projects.

STRENGTHENING ECONOMIC AND SOCIAL COHESION

Strengthening the economic unity of the European Community and ensuring its harmonious development are among the main aims of the Treaty of Rome. The very choice of the name 'Community' by the founding fathers in 1957 says much about both their desire to promote balanced prosperity in all the Member States and, perhaps still more importantly, their acceptance of the need for mutual solidarity in all the areas covered by this ambitious project.

It took only a few years for the Community to develop a whole range of tools for reducing national and regional economic disparities: agricultural structural policy, social policy, regional policy, each supported by its own financial instrument; the Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF), the European Social Fund, the European Regional Development Fund, the Financial instrument for fisheries guidance and the European Investment Bank (EIB).

All these tools are expressions of Community solidarity and enable the wealthiest countries to aid their less prosperous partners. This solidarity was strengthened in 1987 with the adoption of the Single Act. In this new Treaty establishing the single European market, the Community committed itself to a substantial increase in its Structural Fund operations, a commitment which took concrete form in February 1988, when it decided to progressively double, over five years, the budget for structural operations.

Sixty-three million Europeans live in countries where per-capita gross national product is less than 90% of the Community average.

Launched on 1 November 1993, the new European Union in its turn demands a considerable strengthening of solidarity between Member States and, as a consequence, of the Community structural policies. The recent signing of the Treaty of Maastricht, however, gives the harmonious and balanced development of the European economy a whole new dimension.

By setting the aim of economic and monetary union (EMU) by the end of the century, the Treaty significantly alters the purpose of increased economic and social convergence. The very success of this new and decisive stage in the construction of Europe could be seriously undermined by the persistence of excessive economic and social disparities between Member States. Furthermore, Article 2 of the Treaty explicitly makes the promotion of economic and social cohesion one of the essential conditions for the success of the new Union.

EKA

A NEW INSTRUMENT TO PROMOTE SOLIDARITY

The aim of the Cohesion Fund: to help the less prosperous Member States to fulfil the conditions for participation in European economic and monetary union.

The strengthening of economic and social cohesion is, without any doubt, a necessary precondition for the establishment of economic and monetary union but at the same time it represents a real challenge, a challenge to the members of the Union as a body, to the extent that effective convergence of their economic and monetary policies is now vital, but above all, a challenge to those countries whose development is still lagging behind or which are still suffering from handicaps.

Amongst the criteria that all Member States wishing to adopt the single currency must fulfil, when the time comes, the Treaty concluded at Maastricht gives prominence to control of public deficits. This will require a determined effort from all countries. But it is the less wealthy countries that are going to have the most difficult job in bringing public finances under control. These countries that are going to have to impose very strict budgetary discipline, whilst at the same time bringing their prosperity up to the Community average more swiftly, will demand continuing and perhaps even increasing public investment.

It is in order to help those countries experiencing difficulties overcome this problem and, at the same time, help the Union itself to strengthen as far as possible, and as quickly as possible, its economic and social cohesion that the authors of the Treaty on European Union amended Article 130d of the EEC Treaty (inserted by Article 23 of the

Single European Act) to provide for the creation of a Cohesion Fund before 31 December 1993.

This is a new tool for providing assistance and ensuring solidarity, but a specific type of tool — unlike the other Community Structural Funds — in both its objectives and the way it functions. The other Structural Funds are mainly intended to deal with the problem of regional disparities, whether in regions with long-standing problems of under-development or in regions undergoing extensive industrial conversion. They aim to help reduce and, if possible, eliminate these pockets of under-development through structural programmes and individual structural projects.

The purpose of the Cohesion Fund is entirely different, even if, indirectly, the assistance it provides inevitably contributes to promoting regional development and that assistance is coordinated with the operations of the other Community 'solidarity' instruments. The purpose of the Cohesion Fund, as has already been stressed, is to enable all the Member States to join the final phase of economic and monetary union as rapidly as possible, by helping those with the greatest number of handicaps to overcome them. The Protocol on economic and social cohesion annexed to the Maastricht Treaty lays down that 'Community financial contributions' will be made to Member States of the Union 'with a per capita GNP of less than 90% of the Community average which have a programme leading to the fulfilment of the conditions of economic convergence as set out in Article 104c' of the Treaty.

Differences between the Cohesion Fund and the Structural Funds

	Cohesion Fund	Structural Funds
Aims	To reduce economic disparities between Member States	To reduce regional disparities
Parties involved	Projects are agreed between the Commission and the Member State concerned	While the Member State bears the main responsibility, the regional authorities and the promoters play a prominent role in the management of programmes
Conditions	Strict conditions: compliance with the convergence programmes is a condition of funding	No conditions
Geographical coverage limits for the other	Four Member States	Objective 1, 2 and 5b regions. No regional objectives
Areas	Environment and transport infrastructures only	In principle, no sector is excluded
Procedures	Funding is granted on a project-by-project basis	Most of the funding is granted for programmes
Funding available	ECU 16 223 million between 1993 and 1999	ECU 172 506 million between 1993 and 1999

ENVIRONMENT AND TRANSPORT INFRASTRUCTURE

In accordance with these two criteria, four Member States, Spain, Portugal, Greece and Ireland, with a total population of almost 63 million, or nearly one fifth of the population of the European Union, are today receiving assistance from the Cohesion Fund. These four 'cohesion' countries lie on the periphery of the Union.

Article 130d lays down that the Cohesion Fund provides 'a financial contribution to projects in the fields of environment and trans-European networks in the area of transport infrastructure'; in other words, projects in areas where any reduction in public investment because of strict budgetary discipline would be extremely damaging. In fact, the countries receiving assistance have had to give an undertaking not to reduce their own investments in transport infrastructure and the environment.

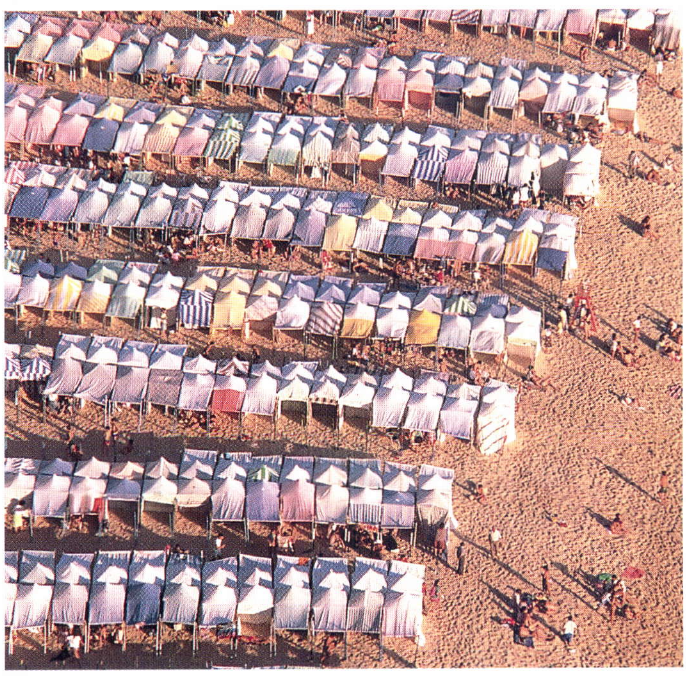
In addition to the direct benefits they naturally bring to the inhabitants, the fauna and the flora, environmental projects are generally an important source of economic activity and long-term employment. Without undermining the principle that the polluter should pay, the Cohesion Fund provides funding for projects involving costs deemed disproportionate to the public finances of the country concerned.

Waste management must involve reducing the quantities of waste produced, promoting recycling and ensuring safe and efficient disposal. This requires modern and costly infrastructures.

As regards transport infrastructure, it is vital for these countries to be connected as effectively as possible to the main centres of activity in the Union and in neighbouring countries, so as to be able to enjoy all the benefits of the single European market. Projects supported by the Cohesion Fund must make a contribution to trans-European communications networks.

All the projects financed by the Cohesion Fund in the fields of environment

Numerous coastal areas, visited by thousands of tourists each year, are still without sewage-treatment plants.



A. Kouprianoff

Salt marches sometimes become contaminated by sewage and other waste. The defence of these vulnerable ecosystems is one of the priorities for environmental protection.

and transport must contribute to the overall economic development of the Member State concerned, thereby strengthening the economic and social cohesion of the Union. It is therefore laid down that projects must 'be of a sufficient scale to have a significant impact in the field of environmental protection or in the improvement of trans-European transport infrastructure networks.' The total cost of a project or group of projects may not, therefore, normally be less than ECU 10 million.

The granting of assistance from the Fund is also conditional on the beneficiary Member State making a real effort not to run up an 'excessive' public deficit. If a country refuses to bring its public finances under control within the time-limit set by the Council of the Union, assistance from the Fund may be suspended. Finally, for the same reasons, the Regulation establishing the Cohesion Fund stipulates that 'particularly in order to ensure value for money' there should be a thorough prior appraisal of all projects, usually in cooperation with the European Investment Bank (EIB), to guarantee that the 'medium-term economic and social benefits [are] commensurate with the resources deployed'. The European Commission and the beneficiary countries must also ensure that the implementation of the projects for which assistance is provided is closely monitored to guarantee that the objectives pursued by the Cohesion Fund are scrupulously adhered to and that projects are carried out efficiently.

The European Union's motorway network still has too many missing links and bottlenecks, particularly at the borders. The Union has drawn up a master plan for a true European network.

ECU 15 BILLION BETWEEN NOW AND 1999

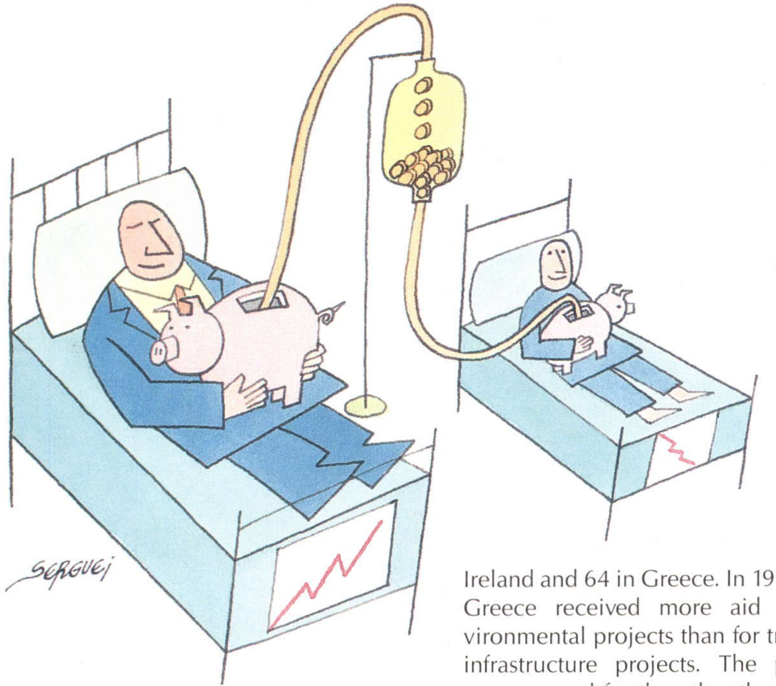
Considerable resources are being mobilized. At the Edinburgh Summit in December 1992, the European Council decided that ECU 15 billion (at 1992 prices) would be made available to the Cohesion Fund over the period 1993-99, rising from ECU 1.5 billion in 1993 to more than ECU 2.6 billion in 1999. This makes the Cohesion Fund a powerful force for economic development, since, although projects receiving financing from the Cohesion Fund cannot at the same time receive assistance from the European Structural Funds, such projects are intended to be complementary with other projects supported from the European Union's budget, particularly those concerning the trans-European networks.

The impact of Cohesion Fund measures is all the greater in that the level of assistance varies between 80 and 85% of the public expenditure on a project. This is a much higher level of funding than provided, for example, by the Community Structural Funds. Preparatory studies and technical support for the preparation of a project can receive 100% financing, particularly if they are undertaken at the European Commission's initiative. On the other hand, where a project generates substantial net revenue for the promoters, be it an infrastructure the use of which involves fees borne directly by users or productive investments in the environment sector, the assistance provided from the Cohesion Fund is adjusted accordingly.

The Regulation establishing the Cohesion Fund lays down an indicative allocation of the resources available between the four beneficiary countries: Spain: 52 to 58%; Greece: 16 to 20%; Portugal: 16 to 20%; Ireland: 7 to 10%. The Regulation also lays down that a suitable balance must be struck between financing for transport infrastructure projects and financing for environmental projects. This more pragmatic approach is justified by the fact that the needs, possibilities, availability and feasibility of projects impose choices which vary from country to country.

Resources available for commitments

1993: ECU 1.50 billion (ECU 1.565 billion at 1993 prices)
1994: ECU 1.75 billion (ECU 1.853 billion at 1994 prices)
1995: ECU 2.00 billion (ECU 2.152 billion at 1995 prices)
1996: ECU 2.25 billion (ECU 2.421 billion at 1995 prices)
1997: ECU 2.50 billion (ECU 2.690 billion at 1995 prices)
1998: ECU 2.55 billion (ECU 2.744 billion at 1995 prices)
1999: ECU 2.60 billion (ECU 2.798 billion at 1995 prices)
Total: ECU 15.1 billion (more than ECU 16.223 billion in adjusted prices)



1993 — A SUCCESSFUL LAUNCH

The Cohesion Fund officially came into being on 25 May 1994, but already had behind it a very positive first year. Without waiting for the entry into force of the Treaty on European Union or the formal adoption of the Regulation establishing the new Fund, an interim financial instrument was set up on 30 March 1993 which enabled almost all the appropriations for the 1993 financial year, around ECU 1.565 billion, to be committed.

These financial resources were easily allocated in line with the allocations to the four Cohesion Fund countries decided upon at the Edinburgh Summit. The Commission thus financed 88 projects in Spain, 33 in Portugal, 43 in Ireland and 64 in Greece. In 1993, only Greece received more aid for environmental projects than for transport infrastructure projects. The position was reversed for the other three countries, although funding for the two areas was almost equal in Portugal.

Initial results bear witness to the close cooperation which has grown up between the Commission and the Member States in working towards greater economic and social cohesion within the European Union.

Assistance from the Cohesion Fund in 1993 *(in ecus)*

Member State	Total	Environment	Transport
Spain	858 450 703 (54.9%)	252 083 242 (29%)	606 367 461 (71%)
Portugal	283 568 700 (18.1%)	122 794 100 (43%)	160 774 600 (57%)
Greece	280 364 000 (17.9%)	175 222 400 (62%)	105 141 600 (38%)
Ireland	141 887 100 (9.1%)	55 917 250 (39%)	85 969 850 (61%)
Technical assistance	374 125 (0.02%)		
Total	1 564 644 628 (100%)	606 016 992 (38.7%)	958 253 511 (61.3%)

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