EC Structural Funds

European Union assistance for regional development:

A brief guide for future Member States

European Commission

Foreword

Cyprus, the Czech Republic, Estonia, Hungary, Poland, Slovenia, Bulgaria, Latvia, Lithuania, Romania, and Slovakia are the eleven countries applying for EU membership. Their candidature was accepted by the European Council held in Luxembourg in December 1997, and negotiations have already begun with the first 6 listed. All of them are now facing the challenge of adjusting to Community policies, including the policy on cohesion financed by the Structural Funds and the Cohesion Fund.

A number of these countries have not hitherto had a real regional policy but, following accession, the Community's structural policies will have to apply in full (although with some transitional provisions), in order to guarantee the economic, social and political cohesion of the enlarged Union.

This brochure is aimed primarily at the people in those countries responsible for preparing the development measures to be supported by the Union. It briefly explains why regional aid is provided at European level, the situation with regard to regional development in the applicant countries and the various stages planned to enable these countries to take part in the structural policies:

- up to 2000 (continuation of the Phare programme),
- between 2000 and accession ("pre-accession aid", with three financial instruments),
- after accession (implementation of the Structural Funds).

The bulk of the brochure is concerned with this last phase and sets out the approach to be followed by the future Member States in preparing regional development programmes through Community support frameworks (CSFs).

This approach is based *on existing regulations and takes into account the new proposals presented by the European Commission on 18 March 1998.* The Structural Funds will be implemented following accession, based on revised regulations and a budget to be adopted by the Council in 1998.

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The Structural Funds

The four Structural Funds are the main financial instruments for the structural policies of the European Union:

- The European Regional Development Fund (ERDF) helps the disadvantaged regions (infrastructure for transport, energy, telecommunications, the environment, education and health, investment in production, services for small businesses and local development).
- The European Social Fund (ESF) promotes employment (training and recruitment aid).
- The European Agricultural Guidance and Guarantee Fund (EAGGF, Guidance Section) supports national aid schemes for agriculture and rural development.
- The Financial Instrument for Fisheries Guidance (FIFG) supports the modernisation of fisheries equipment.

The Commission is proposing that, from 2000, the Structural Funds should pursue three priority Objectives for development :

- Objective 1, concerned with the most disadvantaged regions (only those with a GDP of less than 75% of the Community average) and with greater stress on investment in production and "sustainable development".
- Objective 2, covering all the industrial, rural and urban areas not eligible under Objective 1 and facing particular problems of restructuring.
- Objective 3, including measures aiming to adapt policy regulating employment, education and training in those areas not covered by the first two Objectives.

Both the Structural Funds and the Cohesion Fund use non-repayable aid to part-finance development measures together with the Member States (and, where possible, with the private sector). Such aid is intended to supplement the financial efforts of the countries concerned and may not substitute for those efforts.

The Cohesion Fund

The Cohesion Fund, which operates alongside the Structural Funds, was set up to provide aid at national level to help certain countries (at present Greece, Portugal, Spain and Ireland) to prepare for economic and monetary union (EMU), by financing projects relating to the environment and trans-European transport networks. This is subject to two conditions: GNP must not exceed 90% of the European average and the Member State must follow an "economic convergence" programme (see page 18). In the future, this Fund will continue to help countries which do not reach the figure of 90%.

The European Investment Bank

Loans may also be granted, principally by the European Investment Bank (EIB), to finance infrastructure projects or to provide interest-rate subsidies on new or existing loans.

Why the European Union helps its regions

The European Union is attractive to the applicant countries because of its prosperity. However, in its existing composition it already contains substantial disparities. For example, incomes per head in the region of Hamburg (Germany) are four times those in the Alentejo (Portugal). There are also considerable gaps in terms of employment, education and training, infrastructure, research and technology. If the Union is to be more than a free-trade area, it must try to reduce these disparities. Also at stake is its competitiveness on the world stage, since lags in development act as a check on growth in general and prevent the Union from making the most of its economic and human potential.

This is why the Community's policy of **economic and social cohesion** is so important. Since 1989, this is the policy which has determined how the Structural Funds are to be used and that is why assistance from them has concentrated on priority development Objectives decided on in partnership by the European Commission and the authorities which are responsible in each Member State at national and regional level. The Cohesion Fund was set up in 1993 to provide extra aid to the four poorest of the fifteen Member States.

The financial resources available for the cohesion policy during the current programming period (1994-99) amount to almost ECU 170 billion. Although this is a large amount of money (one third of the Community budget), it is far from adequate to meet the needs which exist. In this respect, the forthcoming enlargement will pose an unprecedented challenge. With a per capita GDP of only about 30% of the existing Union's average, the ten countries of central and eastern Europe lag far behind the least developed of the existing Member States. A Union of 26 countries would have an average GDP per capita about 15% lower than the present figure.

The challenge of the next century

After 2000, the Union will have to continue its support for the most disadvantaged of its existing regions, lay the ground for a structural policy for a 26-nation Union and begin work immediately on helping the applicant countries to make preparations. On 16 July 1997 the European Commission adopted the "Agenda 2000" document, in which it made proposals for meeting that challenge.

If, during the period 2000-06, the Union maintains its contribution at its 1999 level of 0.46% of GDP, funding available to the Structural Funds will increase by 30%, to ECU 275 billion, of which ECU 45 billion (16.4% of the total) would be reserved for the applicant countries. The reform of the Funds planned for 1998 is also intended to increase concentration, make assistance more effective and simplify procedures.

The Copenhagen conditions for enlargement

The accession of the applicant countries depends on their ability to satisfy conditions of three types:

- guarantees for democracy and respect for human rights and good-neighbourly relations;
- developing a viable market economy able to stand up to its competitors in the Union's internal market;
- ability to meet its obligations, particularly with regard to policy, economic and monetary union (transposition of European directives, etc). This is what is meant by "adopting the Community acquis".

What are the conditions for regional development

Because of their tradition of central planning, the central and eastern European countries (CEECs) do not have the substantial administrative and budget resources needed to pursue structural policies. Rising unemployment and awareness of the social cost and regional impact of economic change are, however, gradually leading them to create instruments for regional development, either explicitly (assistance to designated areas) or indirectly (for example, assistance to small firms).

So far, only Hungary has adopted legislation covering both regional policy and spatial planning, but responsibilities have yet to be transferred. Similar legislation is in preparation in the Czech Republic, Romania, Slovenia and Bulgaria, and Poland and the Baltic countries could join this list. Elsewhere, there are only guideline documents which do not commit the public authorities. However, almost all the applicant countries have inherited the rudiments of land-use planning, which can in some cases be widened into a regional development policy.

Over the next few years, before each of these applicant countries joins the Union, policies and instruments (see page 11) will have to be introduced which enable these countries to make a success of "adopting the Community acquis", while avoiding tensions between national and European-level policies.

These developments will mean defining clear policy options, both for the overall direction of structural policies and for close inter-linking of national and regional goals. They will also mean modernising civil-service structures (and particularly their budget instruments) with a view to introducing decentralised management suited to the situations on the ground.

The policy options

Except in Cyprus, defining geographical priorities runs into a number of obstacles :

- the vast extent of the areas in difficulty, which cover a large part of the national territory: over half or three-quarters of a country, or even all of it except the capital; the small size of some countries, which does not lend itself to fully differentiated spatial development policies (except in Cyprus);
  the large-scale nature of the assistance required, particularly for major infrastructure projects. This means that the impact of much of the expenditure will not be differentiated between regions.

In the CEECs, reducing internal disparities will have to form part of an overall priority to close the gap between the development level of the whole country and the Community average. As a result, we can distinguish three geographical levels:

- the **national** level, at which Community assistance can rely on the most developed policies and instruments within the country;

- the **trans-national** level, at which the common policies of the Union operate (the common agricultural policy, the common transport policy, etc.) and at which the Community instruments for cross-border and trans-national cooperation will apply;
- the **regional and local** level, at which the aim is to reduce the internal disparities which are growing and creating political tensions. The methods of action will need to be adjusted to take account of the specific features of each country.

In Cyprus, the great discrepancy between the regions means that priority will have to be given to reducing the internal split caused in 1974 by concentrating aid on the less developed part of the island. This could also have the further advantage of contributing to a political solution.

Modernising the bureaucracy

Almost all the CEECs have embarked on a process of government and state reform which is likely to involve profound changes in their administrative organisation. We can expect that the civil-service agencies responsible will also use this opportunity to prepare themselves for managing the assistance from the Structural Funds and the Cohesion Fund.

The essential basis

The applicant countries will have to create the appropriate instruments still missing in three fields:

- **regional policy** in the narrow sense, which will call for an increase in budget allocation, more thorough development of budget instruments, a reinforcement of the civil-service framework, etc.;
- suitable procedures for **inter-ministerial cooperation,** to clarify the possible role of each of the sectoral ministries (transport, environment, industry, agriculture, social affairs) in development planning and in the part-financing of structural schemes;
- involvement of the **regional and local authorities,** which currently lack the necessary budget funds and technical experience.

Progress in all these fields can never be more than gradual. None the less, the experience of Spain and Portugal shows that central government can prove able to establish rather quickly an appropriate structure for mobilising and coordinating the diverse responsibilities involved in managing the Structural Funds, if given enough time for preparation and the necessary technical assistance.

Budget issues

On the budget side, there are two problems to be solved. One is quantitative: ensuring that **national matching funds** can be mobilised to trigger the Structural Fund contribution. The data currently available do not make it clear when and how this problem will be resolved.

The other is qualitative: the reforms under way in each country should be designed to encourage improvements in **methodology**, by developing procedures and monitoring systems similar to those which exist in the present Member States, alongside specific instruments of regional policy. Although regional funds are being established in Hungary, Bulgaria and Slovenia, care is needed to ensure that both they and the Structural Funds are correctly used.

Naturally, it will take several years before these changes have an impact but we may assume that, when they join, virtually all the applicant countries will have the budget instruments required. The stakes are high enough to encourage the authorities responsible to meet the conditions for implementing Community assistance.

The local authorities

It is generally accepted that a local administration is vital for regional development, particularly in providing support for the small business sector, local development schemes and the establishment of partnership.

Yet progress in this sphere is slow. The central government machinery often lacks sufficiently experienced personnel to ensure that local authorities bear their part of the management burden. Decentralising too early or in a badly organised way can prove counter-productive. The right answers to this issue, which falls within the responsibility of each country, will have to be found at the appropriate time. From the Community's point of view, the problem has to be considered from the practical standpoint of whether the regional administration of a country or its elected bodies are capable of implementing Structural Fund assistance.

Pre-accession assistance

The forthcoming enlargement of the European Union is remarkable for the socio-economic problems of the 11 applicant countries and the fact that the essential structural policies are virtually or completely non-existent. This means that, as in the new German Länder, Community assistance will go hand-in-hand with the introduction of these policies. However, by contrast with the situation in the new Länder and previous enlargements, for the first time specifically targeted structural aid will be granted to the future Member States before their accession (from 2000). In Agenda 2000, the European Commission made proposals concerning this "pre-accession" aid.

The integration of the applicant countries into the Community structural policies will take place in several stages:

- **Between now and 2000:** continuation of the financial and technical cooperation with the CEECs that began with the Phare programme in 1989. The aims of Phare have just been re-worked to take account of the forthcoming accession (see box). This programme is already providing special assistance to the CEECs in 1997-99 for legal and administrative preparations for the introduction of structural policies.
- **From 2000 to the date of accession in each case:** the pre-accession structural assistance proposed by the Commission will support various projects in the applicant countries while familiarising their responsible authorities and economic and social actors with the methods used to implement Community assistance. This assistance is to come from three pre-accession financial instruments: the reworked Phare programme, a new pre-EAGGF fund for agriculture, SAPARD (Special Action Programme for Pre-accession Aid for Agriculture and Rural Development) and the new Pre-Accession Structural Instrument (ISPA).
- **After accession:** countries will start to implement the Structural Funds and the Cohesion Fund in full (see section starting page 13).

The three pre-accession instruments

The reworked Phare programme

Until the end of the period 2000-06, the Phare programme will remain the main Community instrument for cooperation with the CEECs. In each country until it joins, Phare will have virtually the same scope as Objective 1 of the Structural Funds, which is to be applied later. Between 2000 and 2006, funding for Phare will be increased from an average of ECU 1 billion to ECU 1.5 billion per year.

The new Special Action Programme for Pre-accession Aid for Agriculture and Rural Development (SAPARD)

From 2000, this fund will provide ECU 500 million per year for agriculture (modernisation of agricultural holdings and the agri-food industries) and rural development. This new Fund will prepare for application of the various elements of the European Agricultural Guidance and Guarantee Fund (EAGGF).

The new Pre-Accession Structural Instrument (ISPA)

Between 2000 and the date of accession, the scope of the ISPA will be similar to the Cohesion Fund, which currently assists the four poorest countries in the Union, and it will operate in a similar way (see page 16). It will have a budget of ECU 7 billion out of a total of ECU 45 billion for the future Member States. Each year it will commit ECU 1 billion. Assistance from this Fund will be aimed primarily at helping these countries meet the high levels of expenditure which will be required to bring their transport and environmental infrastructure up to Community standards.

"Accession partnerships"

To help integrate the future Member States, it is proposed to sign "accession partnerships" between the European Commission and each applicant country based on a "national programme to conform to the Community acquis". The priorities and timetable for this programme will be laid down by joint agreement. One aim of these partnerships will be to ensure close coordination of the three instruments providing pre-accession aid. This will mean that investments by the ISPA in transport networks and the environment, and aid from SAPARD for agricultural and rural development cannot be financed by Phare at the same time. Specific rules will be laid down for the various Funds.

The "accession partnerships" based on the Union's regional policy should encourage the applicant countries to take account of Community assistance when preparing their own budget programming.

Phare: a further stage

Phare was set up in 1989 to help the transition process in Poland and Hungary and subsequently extended to other countries. Its focus has gradually shifted towards preparations for accession. It provides non-repayable assistance, which was originally concentrated on technical assistance for the reforms but was later extended to cover fields such as nuclear safety and the development of infrastructure. Thanks to the flexible way in which it operates, Phare has played and continues to play a key role for countries which share the tradition of political and economic centralisation but which have begun to move away from this in different circumstances and at different speeds.

In March 1997, the Commission adopted new guidelines for the Phare programme. Whereas hitherto it had responded to requests made by countries, Phare's work is now based on the requirements of accession. Its procedures will be simplified, projects will be larger and cooperation between the CEECs and the Commission will be closer, while project management will be decentralised to those countries able to apply the Community management principles. There will be two priorities for operations in the applicant countries:

- the institution building (30% of the budget),
- investment support relating to adopting the Community acquis, particularly non-physical investment and other capital assistance (70%).

After accession: how the Union will support development operations

This chapter is based on the existing rules. After the accession of each applicant country, the Structural Funds and the Cohesion Fund will be implemented on the basis of the new regulations and budgets adopted in 1998. The whole territory of these countries will be covered by Objective 1 of the Structural Funds (the economic adjustment of the most disadvantaged regions of the Community whose per capita GDP does not exceed 75% of the Community average).

Assistance from the Structural Funds

Following accession, the Union will provide funds for regional development from the resources of the Structural Funds. These will not normally be used to finance individual projects, but will fund **development programmes,** coordinated sets of measures implemented over a number of years. These programmes, each with its own budget, are the result of a process involving various partners: the Member States and the appropriate regional authorities, other interested parties and the European Commission.

Who proposes the programmes?

The programmes are always proposed by the appropriate authorities in the Member States, who also manage the programmes once they have been adopted by the Commission.

What is the result of the programmes?

The budget allocated to each programme provides finance for the measures and projects to be implemented locally. These operations are selected by the authorities in the Member States; this means that those wishing to receive support from the Structural Funds (local authorities, associations, firms, etc.) should apply to those authorities.

Can the programmes be altered?

The implementation of operations is supervised by Monitoring Committees comprising representatives of the various partners. Where necessary, these Committees may alter programme guidelines.

What is the point of the partnership?

The operations part-financed by the European Union do not stem from a centralised system of planning and management; they are based on the principle of partnership. This requires the closest possible cooperation among all the partners, from preparation to implementation of operations. It is intended to guarantee an effective sharing of responsibilities, at a level as close as possible to where the work is actually being done and with due regard to existing political, administrative and technical responsibilities.

How are decisions taken?

The decision-making process varies depending on the programme.

- The most frequent type is the **national initiative** programme. In the new Member States, adoption of these programmes will preceded by the preparation of **Community support frameworks** (CSFs), guideline documents which assist in the drawing up of common strategies for regions covering large areas. First of all, the authorities in each country will submit a regional **development plan** to the Commission. Following negotiations between the two parties, this will become a CSF, and so form the basis for the actual programmes **(operational programmes)** (OPs), which are then submitted by the Member State to the Commission. The Commission proposes that in the future, concrete measures are detailed in **programming supplements** to be established by the Member States under their own responsibility. This way, a clear distinction is drawn between the role of the Commission (guaranteeing strategic priorities) and programme management which follows a more decentralised approach.

DEVELOPMENT PRO

NATIONAL INITIATIVE

COMMUNITY INITIATIVE

- The **Community Initiative** programmes (CIs) are proposed by the Member States on the basis of guidelines laid down by the Commission following consultations. They complement the national initiative programmes to help them solve problems which are of particular importance to the Community as a whole.

The Community Initiatives

For the period after 2000, the European Commission recommends reducing the number of Community Initiatives from 13 to 3. These 3 Initiatives would focus on:

- Cross-border, transnational and inter-regional cooperation to stimulate regional economic development and encourage harmonious and balanced regional planning;
- rural development
- transnational cooperation to fight all types of discrimination and inequality preventing access to employment

The current Interreg Initiative (1994-1999) already plays an important role in the CEECs in 2 fields:

- Cross-border cooperation (the CEECs receive financial aid from Phare, while the Member States finance their contributions with appropriations from Interreg), and
- Transnational cooperation, particularly to control flooding and drought. This measure concerns geographically adjacent areas, normally in three countries of which at least two must be Member States of the Union. The CEECs which take part in this type of cooperation make their applications for assistance through Phare.

Innovative operations

As an exception to the programming principle, the Commission may decide to use a limited amount of financial resources for its own innovative operations (studies, pilot projects, exchange of know-how) which could inspire future development programmes. Some of these operations currently form part of the Ecos-Ouverture programme for cooperation between cities and regions in the Union and those outside, particularly the CEECs.

RAMMES: THE DECISION-MAKING PROCESS

DEVELOPMENT PLAN: The Member State, in cooperation with the regional authorities, presents a Development Plan * to the Commission defining its priority action areas.	**COMMUNITY SUPPORT FRAMEWORK:** A CSF is then negotiated between the Commission and the Member State authorities.	**PROGRAMMES:** On this basis, the programmes proposed by the Member State are adopted by the Commission.	**PROGRAMMING SUPPLEMENTS:** It is the Member States' responsibility to outline the specific programme details in the supplementary documents.	**Actions**
CONSULTATION OF THE MEMBER STATES: the Commission presents its main ideas regarding the content of the Community Initiatives to the Member States.	**COMMISSION GUIDELINES:** following consultation, the Commission adopts its guidelines for each Initiative.	**PROGRAMMES:** On this basis, the Commission adopts the programmes presented by the Member States.	**PROGRAMMING SUPPLEMENTS:** It is the Member States' responsibility to outline the specific programme details in the supplementary documents.	

* To facilitate this process, the Commission will from now on establish its priority guidelines prior to the preparation of these development plans.

The scope of the Structural Funds at a glance

The main goal in the future Member States will be to raise their levels of development through economic adjustment programmes and to help people find jobs despite unemployment and industrial change. The Structural Funds can support operations of the following types:

- Direct investment in production to create jobs.
- Services to small firms (advice, business start-ups, establishment, financial engineering, transfer of technologies, marketing, certification, etc.) to develop regional and local potential and diversify economic activity.
- Basic economic infrastructure (transport, telecommunications, energy, solid-waste and waste-water treatment, restoration of industrial land, business parks).
- Research and development and technological innovation.
- Infrastructure for education and health; personal services.
- Improving the structures for processing and marketing agricultural and fisheries products; modernisation of facilities; quality seals for local agricultural and craft products; diversification of economic activity in rural areas (mainly through tourism).
- Protection of the environment, development of the nature heritage.
- Restoration of buildings, development of cultural assets.
- Regeneration of depressed urban areas.
- Cross-border or trans-national cooperation, exchanges of experience, establishment of networks.
- Finding jobs for young people, the unemployed and those suffering from, or threatened by, social exclusion through recruitment aid and training (initial, on-going and sandwich training, the training of instructors, research workers, administrative staff, etc.) ; equal opportunities for men and women.
- Development of new qualifications to meet changes on the labour market; adjustments in the structures of training and employment.

Assistance from the Cohesion Fund

The Cohesion Fund helps those countries whose GNP is less than 90% of the Community average to prepare themselves for economic and monetary union (EMU). This means that it is not specifically concerned with regional policies. However, assistance from it is, in practice, complementary to the help which the Structural Funds provide to the regions. It is restricted to two fields: the environment and major transport networks, and is intended to ensure that progress by the recipient countries towards the budget stability required by EMU does not prevent the large-scale investment required in these fields.

Unlike the Structural Funds, the Cohesion Fund does not part-finance programmes, but directly funds clearly identified **projects**. This means that its impact in promoting "sustainable development", development which will last and is environmentally sound, can be easily assessed from the outset.

Decisions are taken in partnership by the Member State and the Commission. The projects adopted by the Commission may be grouped, while a single project may, if appropriate, comprise a number of stages, which are financed separately. Care is taken to avoid a project or a stage of a project being financed by the Cohesion Fund and the Structural Funds at the same time. The length of projects varies from case to case. They are managed by the national authorities and their implementation is supervised by Monitoring Committees.

The preparation of programmes: CSFs

As explained above, the programming documents for the new Member States will take the form of Community support frameworks (CSFs). Each CSF will include:

- A description: an analysis of the situation of the region in question and an overview of the national context.
- A strategy: a definition of a strategy for development, the main priorities for action and quantified objectives for each priority.
- An evaluation: a prior appraisal of the socio-economic impact of the operations.
- A financial section: an estimate of the total resources required and an indicative breakdown of expenditure among the various partners and priorities.
- A section on implementation: the procedures for the monitoring and evaluation of programmes.

Only after this framework document has been adopted by the Member State and the Commission can the actual programmes (the "operational programmes") leading to implementation be proposed. Thereafter, the Member State authorities take responsibility for establishing the more detailed programming supplements.

a) The economic and social situation in the region

General description of the region

The primary aim is to describe in geographical terms and with the aid of maps the region where the assistance will be provided, showing its size and population in comparison with those of the Member State and its population density (to permit comparisons in terms of the level of per capita financial assistance). Other statistics will include the unemployment rate (particularly among young people), the economically active population and its breakdown by gender, the age structure, inward and outward migration, etc.

The level of regional development

In order to choose priorities, quantify objectives and take decisions on investment, it is essential to identify areas where the development of the region is lagging behind and to be able to measure these inadequacies. This descriptive part of the CSF will provide the most accurate possible data on the level of regional development in three main fields comprising 14 categories (the Structural Funds will not necessarily provide assistance to all these categories):

- **Basic infrastructure for**
  - transport (road, rail, air, waterways, sea),
  - telecommunications,
  - energy (electricity, gas, etc),
  - water supply,
  - environmental infrastructure,
  - health infrastructure.

- **Human resources**
  - education,
  - vocational training,
  - research and technological development.

- **The productive sector**
  - industry and services (including services to small firms),
  - rural development (level of economic diversification),
  - fisheries,
  - tourism,
  - agricultural structures.

The data required will be collected through a system of appropriate socio-economic indicators (see page 22).

b) The region's strengths and weaknesses

In this part the aim is to highlight the region's strong and weak points, as far as possible using appropriate statistics (including Community statistical averages) which enable comparisons to be made with other Member States and regions.

This part of the analysis represents a further step towards the definition of a development strategy based on the strengths of the region (whether already exploited or latent) in order to improve its competitive position while also seeking to overcome or offset its handicaps.

The environment

Besides dealing with economic and social matters, this approach also concerns the environment. The European Union regards this as an essential aspect of development, both from the point of view of sustainable development and because a healthy environment helps attract fresh economic activity (small firms looking for an attractive setting, green tourism, leisure activities). Accordingly, the CSF is required to include an "environmental profile" setting out the main positive and negative aspects of the state of the environment in the region and describing the legal and administrative framework (the responsible authorities) in charge of this area or being set up.

c) More general points

The development of the most disadvantaged regions requires a considerable effort, particularly in financial terms. This effort must form part of a coherent development strategy which meets all the challenges which the countries concerned are facing. Hence the CSF must include more general information to assist this approach.

- **The macroeconomic context**

An overall survey of the macroeconomic background of the Member State: main features, unemployment and the labour market, growth, per capita GDP, etc.

- **The Member State's "convergence programme"**

The main outline of the Member State's "economic convergence programme", that is the measures through which it intends to meet the criteria for economic and monetary union laid down in the Treaty (price stability, public finances, exchange rates and interest rates): projects for structural reform, particularly in the public sector, privatisations, competition policy, restructuring the labour market, etc.

d) The development strategy

The economic and social analysis of the region and the description of its strengths and handicaps are used to generate a regional development strategy. This has to be based on an explanation of:

- the need for assistance from the Structural Funds,
- how the planned operation fits into the Funds' priorities for assistance,
- how it complements the economic and social policies of the Member State and, if relevant, its regional policy.

From the outset, preparation of this strategy must seek to create the conditions for **synergy**, that is, for the various policies in question and the various forms of Community and national assistance to complement each other. This will help generate synergy in the priorities for action selected and in the specific measures and projects which result.

In the new Member States, the particular features of their economic systems mean that the development strategies will have to stress assistance to the productive sectors, contributions from private firms and those involved at local level and the protection of the environment.

The CSF, the result of a negotiation process

The final text of a CSF will be the result of negotiations between the Member State and the European Commission (see page 14). These negotiations will cover:

- the quality of the analysis,
- the appropriateness of the development strategy,
- quantified forecasts of the economic and social outcomes (cost/effectiveness ratio),
- the prudent allocation of financial resources (among priorities for action and among the various sources of finance),
- the combination of grants and loans,
- the "integrated" nature of the operations (whether there is synergy between them),
- their compliance with other Community policies,
- their capacity to create employment,
- their capacity to stimulate innovation and competitiveness,
- the quality of the partnership (existence of regional or local structures with transfer of responsibilities, involvement of the private sector, efficient division of responsibilities, etc.),
- the existence of suitable conditions for the monitoring and assessment of programmes.

e) Priorities for action

The priorities for action will emerge clearly from the development strategy laid down. They will of course be determined in accordance with the financial forecasts (see pages 24). Subdivisions will enable account to be taken of financial items relating to the various Structural Funds.

These priorities will be required to attach particular importance to promoting **innovation**, mainly through the information and communications technologies and the establishment of the information society. Innovation will be of particular importance in the following fields:

- local and rural development,
- inter-regional cooperation,
- industrial change and competitiveness,
- systems of education and vocational training and services for employment.

f) Measures

While the priorities for action are set out in the Community support framework, details of the actual measures and projects to be implemented are contained in separate documents, the operational programmes (OPs). An OP must provide the following information for each measure, (see example on facing page):

- the title and description of the measure,
- its scope (sector concerned and geographical coverage),
- the financing plan,
- the quantified objectives (where the measure lends itself to quantification), and the indicators which will be used,
- the body (or person) responsible for implementation,
- the end beneficiaries,
- its duration.

Measures may differ in size and degree of complexity but all must:

- pursue a specific objective, quantified where it lends itself to quantification;
- be the subject of a single rate of Community financial assistance based on the total cost established;
- be the responsibility of a clearly identified body (or person).

Compliance with Community policies

The priorities for action laid down in a CSF and the specific measures which implement them must comply with the Treaty, Community legislation and the various policies of the European Union. Compliance will be verified when applications for finance are considered and when operations are being implemented. This obligation is of particular importance in the following fields:

- The competition rules which apply to state aids. Community part-finance for national schemes of aid to firms is subject to prior approval of those aids by the Commission.
- The award of contracts. The "public procurement" Directive sets out the situations in which contracts already awarded must be mentioned in applications for finance or notified to the Commission at its request.
- Environmental protection. The principles set out in the "Community programme of policy and action in relation to the environment and sustainable development" and Union legislation on the environment must be taken into account. A CSF must also include an analysis of the situation of the region in this respect and an appraisal of the environmental impact of the planned operations (see page 18).
- Equal opportunities for men and women. The operations part-financed must not only comply with Community legislation on this subject but must, where appropriate, help promote equal opportunities in areas such as access to employment and training, working conditions, etc.

Furthermore, in any given period, no measure may receive assistance from more than one Structural Fund. In the case of the ESF, no measure may relate to more than one of the objectives laid down in the Regulation governing that Fund.

If the programme is part-financed by more than one Fund (a "multi-Fund programme"), the various measures have to be integrated.

Example of typical information required for a measure

(for the programming supplement)

Priority: 3.1. Industry and services.

Measure n0: 3.1.3.

Title of measure: Development of foreign markets for small firms.

Description of measure

Aid to small firms for:
- grouped or sectoral marketing projects,
- information on markets, market research andother marketing services,
- design and product development.

Financial table:
(in millions of Euros)

Total cost:	52.48
- Public expenditure:	40.48
- Including ERDF:	23.63
- Private expenditure:	12.00

EU contribution: 45% of total cost.

Geographical area: The whole region eligible under the CSF.

Quantified objective of themeasure: To develop foreign markets for small firms (increasing the share of the region's export market in other EU countries from 1.1% in 2006 to 2.5% in ...).

Specific and quantified interim objectives:

1) To provide small firms with marketing support offering them long-term access to foreign markets: 150 sectoral marketing projects per year involving 600 firms.
2) To help small firms pool their marketing efforts to aim at a level of growth in exports which they could not achieve alone: 12 to 15 grouped marketing projects per year; 4 or 5 small firms per group.
3) To identify and develop marketing opportunities for small firms participating in the Company Development Programme: 2 200 marketing services per year.
4) To help small firms identify, develop and launch new and appropriate products: conception and design (30 workshops, each with 200 participating small firms), project development (50 firms per year).

Body or person responsible: Regional Office of the Department of Industry and Commerce.

Final beneficiaries: Local firms.

Duration: (...).

g) Quantified targets

The objective of each priority laid down in the CSF must be quantified wherever possible. The same rule applies to programmes, as well as to the concrete measures outlined in the programming supplements. This quantification is done using appropriate indicators (see box) and will allow for the effective monitoring and evaluation of the CSF from the ground up (see pages 25 and 26).

h) Prior appraisal of the socio-economic impact

Prior appraisal is a pre-condition for the granting of Community assistance. It is intended to show, using quantified targets, that the CSF is not simply a list of intentions but a genuine development tool. It is also intended to demonstrate the relevance of the planned expenditure and its breakdown.

Specifically, it includes:

- **The expected impact** in economic and social terms, and particularly in terms of jobs. In the medium-term, operations must generate improvements in these areas commensurate with the financial resources deployed (cost/effectiveness ratio).
- **The existence of adequate structures** to implement and provide administrative and financial management for operations.
- **Conformity of the operations with Community policies** (see page 20) and their links with national policies.
- **The combination of grants and loans** (see page 24).

What figures should be used in a CSF? The different types of indicators.

For expressing analyses and forecasts in figures and for the subsequent monitoring and evaluation of operations, there is a harmonised system of indicators which is currently being used for Community assistance. These include:

- Physical indicators, which measure data such as infrastructure provision, places available in vocational training establishments or tourist accommodation, the number of telephone lines per 100 population, the capacity of waste-water and solid-waste treatment plants, etc.
- Impact indicators, which measure the expected impact of an assistance package on data such as those listed above or on the number of jobs, the number of those participating in training measures, etc.
- Performance indicators ("output"), which measure the results obtained in terms of the objectives and the improvement in performances resulting from assistance. "Interim indicators" are used to measure more specifically the results which stem directly from an operation.
- Financial indicators ("input"), which measure the amount of investment provided: the share of each priority in the total cost, the proportion of total public expenditure or total cost provided by Community assistance, gross investment as a percentage of GDP, etc.

i) Assessing the overall financial effort and its indicative breakdown

Even before adoption of operational programmes and the final breakdown of appropriations among these programmes, a CSF must provide a financial estimate of the overall development effort which will be required during the programming period in question and of the breakdown of that effort among the strategic priorities and the various partners. This estimate will include financial information on expenditure eligible under the Structural Funds in the region covered by the CSF. The amounts are to be broken down as follows:

- by type of expenditure,
- by the origin of the financial resources.

Development-related expenditure is sub-divided into three main areas:

- **Basic infrastructure:** capital expenditure in each of the sectors concerned. Expenditure on the maintenance of infrastructure is not eligible under the Structural Funds. If the Member State wishes to show the funding dedicated to maintenance, it may add such expenditure to capital expenditure provided it distinguishes between the two types.

- **Human resources:** capital expenditure and certain current expenditure on education, training and research and development. Current expenditure includes primarily the training of teachers and instructors, grants for post-graduate or research work, the provision to firms of services for applied research and the transfer of technology, the specialisation of research workers and technicians and supporting measures concerned with social exclusion or industrial change.

- The **productive sectors:** expenditure to promote these sectors, including local economic infrastructure. Aid to firms may include all existing forms of support, including recruitment aid and tax advantages, although these must be distinguished from other types of aid.

To sum up, structural expenditure by the Member States may be part-financed by the Community when it:

- is eligible under the Structural Funds by virtue of its destination,
- and will be carried out in the eligible region in question, either by the public administrations concerned (national, regional or local), or by public service bodies, or, at the duly justified request of the Member State, by private firms entrusted with tasks of public interest.

In the case of the private sector in general, the only expenditure taken into consideration will be spending on the types of investment eligible under the Structural Funds.

These financial forecasts are only indicative; this means that they do not commit the Member State to carrying them out. They may be confirmed or replaced gradually (on an annual basis) by more precise estimates while the CSF is being implemented.

The rates of Community assistance

The rate at which the Structural Funds part-finance operations varies depending on four criteria:

- the seriousness of the problem,
- the financial capacity of the Member State and its level of relative wealth,
- the particular importance of the operation from the regional or Community point of view,
- the particular features of the operation (how expensive it is).

In the Objective 1 regions (therefore in the future Member States), the rate of assistance **cannot exceed 75% of the total cost** and, as a general rule, **cannot be less than 50% of total public expenditure.**

In the case of projects supported by the Cohesion Fund, the rate of assistance may, in exceptional cases, amount to **80% of the total cost.**

Combining grants and loans

Despite the size of the funds devoted by the Union to implementing its cohesion policy, the budget available is still not enough to meet all needs and, very often, the capacity of the Member States to provide their own finance. On the other hand, experience has also shown that it can often prove difficult to manage effectively levels of aid which are high in relation to the GDP of the beneficiary regions or countries; sometimes this may even cause economic structures to misfunction. In the new Member States, these difficulties could be aggravated by problems relating to the administrative systems, insufficient capacity to absorb finance and the requirement that the central government should provide national finance for new policies.

For all these reasons, it is suggested that the aid provided in the form of non-repayable grants (Structural Funds, Cohesion Fund) should be combined with loans (chiefly the European Investment Bank – EIB). Use of such loans maximises the multiplier effect of the grants.

EIB and other loans must be mentioned in the financing plans, starting with the table showing the indicative overall development effort (see page 23).

Programme implementation

The implementation of operations under the best possible conditions depends on the provision of appropriate structures, methods and procedures through a partnership approach. This requires close cooperation between the Commission, the responsible national authorities in the Member State and, where appropriate, the regions, the development bodies concerned and if possible representatives of the economic and social partners (depending on the practice of the Member State in this respect).

The Member State will establish its own suitable procedures for inter-ministerial cooperation (see page 10). It will also set up, with technical assistance from the Structural Funds (see page 26), computerised systems for management, monitoring and evaluation. The Commission's services will help identify the appropriate evaluation indicators (see page 22), which will then be laid out in the programming supplements.

The managing authority

With a view to more efficient implementation, the European Commission proposes that in the future, Member States designate a single managing authority per programme. At least once a year, the managing authority and the Commission would examine the main outcomes of the previous year as well as the success of the implementation process.

The CSF Monitoring Committee

Its Monitoring Committee plays a vital role in implementing a CSF. This Committee is made up of representatives of the authorities and bodies involved in the Member State and representatives of the Commission and the European Investment Bank. If it is considered necessary, a Committee may also be set up for an individual priority in the CSF. The Monitoring Committee meets several times a year at the initiative of the Member State or the Commission. Its main duties are to:

- coordinate the various forms of structural assistance (national and Community) in the light of the strategic objectives of the CSF,
- monitor implementation of the CSF,
- undertake periodic analyses of the socio-economic disparities and development shortfalls which the CSF is intended to remedy,
- contribute as appropriate to the amendment of the CSF and any resulting reallocation of certain financial resources. Amendments are made in agreement with the Member States and the Commission and in accordance with the arrangements laid down for the various cases.

The Monitoring Committee for a programme

A Monitoring Committee with a similar composition is set up for each operational programme to be adopted on the basis of the CSF. If necessary, a Committee may also be set up for a sub-programme or at the level of a region to supervise implementation of a multiregional programme. The main duties of these Monitoring Committees are to:

- monitor implementation of the programmes,
- create conditions in which the measures can be implemented effectively,
- ensure compliance with statutory provisions,
- verify that the operations conform to the objectives and priorities of the CSF,
- contribute to any amendment of the programmes and their financing.

The Community Initiative programmes (CIs, see page 14) are implemented in the same way as the operational programmes.

To reinforce decentralisation, the European Commission proposes that the programming supplements recommended for the future (see page 14) are not submitted to the Commission without the prior approval of the Monitoring Committee. The Committee should also give its prior approval to all programme modifications or supplements.

Evaluation: *ex ante*, on-going, *ex post*

Correct evaluation is vital if programmes are to succeed. Evaluation takes place in three phases: *"ex ante"*, *"on-going"* and *"ex post"*. Evaluation is the joint responsibility of the Member States and the Commission. Under the regulations, the competent authorities must ensure that evaluation work is as effective as possible and that the evaluation reports are made available to any member of the public who requests them.

- More specifically, ***ex ante* evaluation** is the task of the authorities responsible for drawing up the regional development plan. It looks at the strengths and weaknesses of the region and the sector concerned and the relevance of the strategy and the objectives and makes a preliminary appraisal of the assistance and its quantified objectives (see pages 20-22).

- **On-going evaluation** is based on the **monitoring** of programme implementation (see above) and includes the **mid-term** evaluation of the first results of the assistance. The mid-term evaluation is the responsibility of the managing authority for the programmes, in cooperation with the Commission. It looks at how the initial results correspond to the *ex ante* evaluation, the relevance of the targets announced and the quality of the financial management, implementation and monitoring of the programmes. This evaluation is carried out by independent assessors and sent to the Monitoring Committee concerned and then to the Commission.

- ***Ex post* evaluation** is the responsibility of the Commission, in cooperation with the Member State and the managing authorities. It concerns the CSF as a whole: the use made of resources, the impact and effectiveness of assistance and how they correspond to the *ex ante* evaluation. This exercise yields lessons providing experience of economic and social cohesion and helps in preparing the next programming period. In practice, the mid-term evaluation is also entrusted to independent bodies or experts.

Technical assistance

Alongside the various priorities for action, the CSF includes a measure for "technical assistance". Under this measure, the Structural Funds may finance actions necessary for the implementation of the CSF, such as:

- studies
- measures of technical assistance, the exchange of experience and information aimed at the partners, the final beneficiaries and the general public,
- the installation, operation and interconnection of computerised systems for management, monitoring and evaluation.

Technical assistance is also provided for each programme.

The financial rules

One golden rule: additionality

One of the basic principles underlying the Structural Funds is additionality, which seeks to ensure that Community resources are not used simply to take the place of national structural assistance. In its part-financing decisions, the European Commission looks at the macroeconomic background to the funding or at specific economic situations, such as those created by privatisation or by changes in national economic circumstances.

The Member States must provide the information required to verify additionality when they submit their regional development plans and at regular intervals while programmes are being implemented.

Financial management

The Member State guarantees that all the bodies involved in managing and implementing programmes will use an appropriate accounting method for transactions concerning Community assistance in order to facilitate the verification of expenditure by Community and national audit bodies. Community regulations set out the conditions which govern this requirement.

In order to reconcile the need for effective arrangements for the payment of Community assistance with the need for rigorous budgetary discipline, the rules provide for a system of commitments and payments within the context of established financial plans. The Commission proposes the following procedures:

- Budget **commitments** from the Structural Funds will be made on an annual basis, no later than 30 April. The Commission will automatically decommit any part of a commitment for which it has not received an acceptable payment request within three years.

- The following rules will apply to **payments:**

  - When the first commitment is made, the Commission will pay an advance to the Member State of up to 10% of the contribution of the Funds to the operation in question.
  - Interim payments will reimburse actual expenditure based on certified proof provided by the Member State. This is an interesting means of evaluating the real progress of the programme.
  - The Commission will pay the final balance once it has received all the documents required by the Regulation, notably the programme reports.

The eligibility of expenditure

The Regulation defines those areas generally eligible for support from the different Structural Funds. In addition, the Commission has drawn up common rules regarding the details of eligible expenditure (that is, those which can benefit from European Union co-financing). National rules will apply where common rules have not been established.

Legal validation

The Member State is validly engaged in a development operation when the "final beneficiaries" of Community assistance commit themselves through a contract to carry out the operations for which the assistance is granted. The contract must be legally binding and be accompanied by the financial commitment, that is, the allocation of the public financial resources required. These definitions must have regard to the particular institutional and administrative arrangements in each Member State.

Who are the "final beneficiaries"?

- They are the public or private bodies or firms responsible for commissioning works; plus
- in the case of national aid schemes for firms and assistance granted by bodies designated by the Member State, final beneficiaries are the bodies granting the assistance.

The final beneficiaries collect the financial evidence required (lists of paid invoices or other valid accounting documents). Every programming document (CSF, operational programme, programming supplements) submitted to the Commission must state the final beneficiaries or the categories of final beneficiaries (see example on page 21).

The different levels of financial management

The financial management of Structural Fund interventions, carried out by the responsible authorities in the Member States, occurs on several levels which should be taken into consideration when management and evaluation systems are being set up.

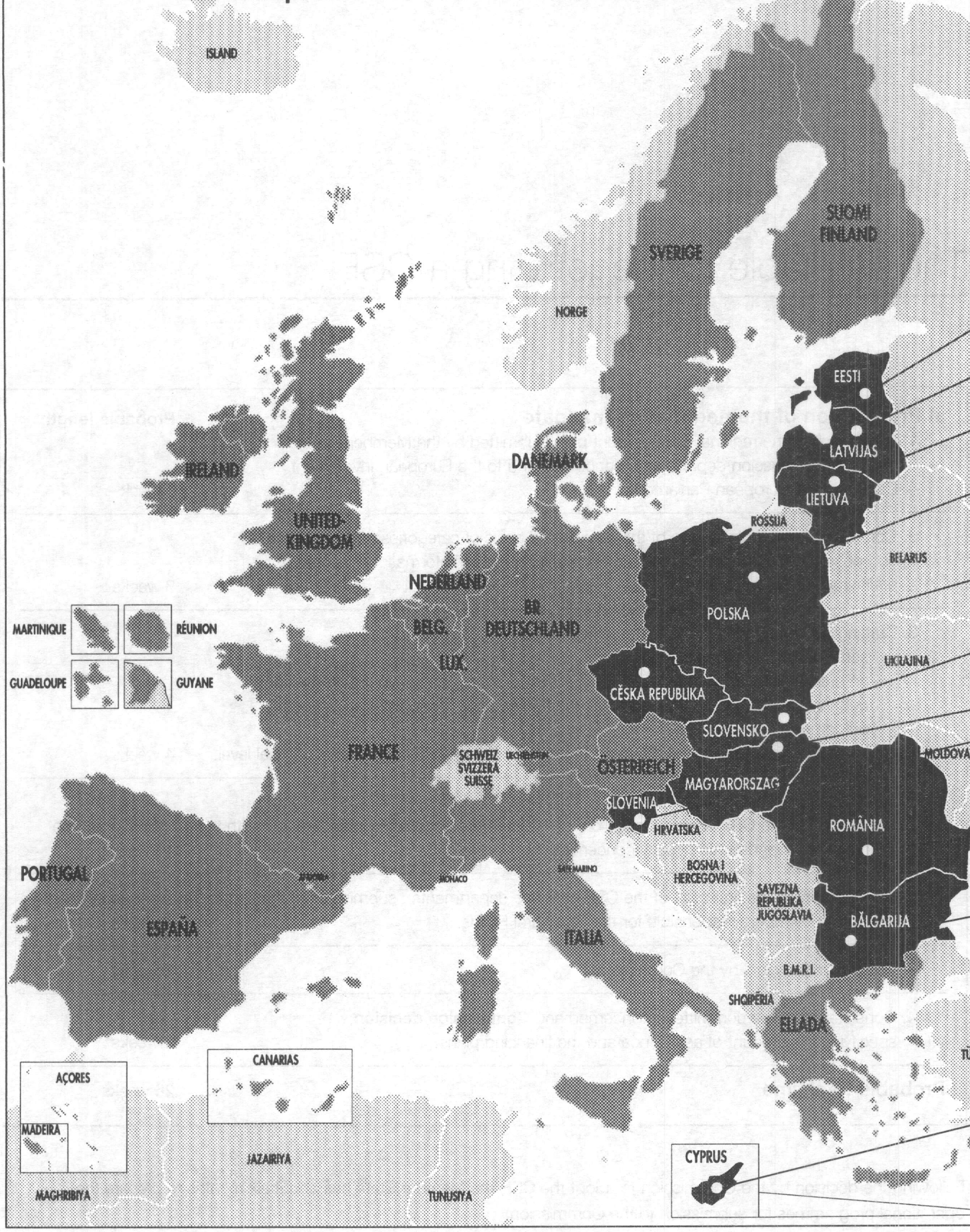
- programming (multi-annual)
- approval (annual budgeting)
- execution (authorisation of expenditure)
- commitment of expenditure
- payments

The timetable for negotiating a CSF

a) Preparation of the negotiating mandate	**Probable length**
1. Distribution of the regional development plan (submitted by the Member State) to all the Commission departments concerned and to the European Investment Bank and the European Parliament.	1 week
2. Consideration and discussion of the plan on the basis of categories of expenditure and possible consultation of the Member State for further information. Launch of preliminary appraisal studies.	3 weeks
3. Drafting of the negotiating mandate, which includes: – settlement of points in dispute, – an outline of the main points of the CSF (first draft) by the relevant Commission departments based on the appraisal, the figures used for quantification and the outcome of consultations. This mandate is discussed by all the departments concerned and approved at political level.	4 weeks
b) Preparation of the decision	
1. Negotiation of the CSF in partnership, on the basis of the negotiating mandate and with the participation of the Commission departments directly concerned.	11 weeks
2. Development of the first draft of the CSF by those departments ; submission of the text to the other departments and to the Members responsible for the Structural Funds.	2 weeks
3. Decision in principle by the Commission.	2 weeks
4. Consultation of the committees concerned and **Commission decision**, specifying the amount of assistance and the financing plans.	3 weeks
Probable total time	26 weeks

Following the decision by the Commission to adopt the CSF, the Member State has about six months to prepare the operational programmes for submission to the Commission.

The European Union and the 11 candidate countries



ESTONIA

Population : 1.476 (1995)
GDP per capita: 22 (1995)
Unempl. rate : 7,6 % (1994)

LATVIA

Population : 2.479 (1996)
GDP per capita: 18 (1995)
Unempl. rate : 18,3 % (1996)

LITHUANIA

Population : 3.707 (1996)
GDP per capita: 24 (1995)
Unempl. rate : 6,2 % (1996)

POLAND

Population : 38.609 (1995)
GDP per capita: 31 (1995)
Unempl. rate : 12,4 % (1996)

Czech Republic

Population : 10.321 (1995)
GDP per capita: 57 (1995)
Unempl. rate : 3,4% (1996)

SLOVAKIA

Population : 5.368 (1995)
GDP per capita: 41 (1995)
Unempl. rate : 10,9% (1996)

SLOVENIA

Population : 1.990 (1995)
GDP per capita: 59 (1995)
Unempl. rate : 7,3 % (1996)

HUNGARY

Population : 10.212 (1995)
GDP per capita: 37 (1995)
Unempl. rate : 9,2 % (1996)

BULGARIA

Population : 8.340 (1996)
GDP per capita: 24 (1995)
Unempl.t rate : 13,7 % (1996)

ROMANIA

Population : 22.608 (1996)
GDP per capita: 24 (1996)
Unempl. rate : 8,0 % (1995)

CYPRUS

Population : 645 (1995)
GDP per capita: n.d.
Unempl. rate : 2,6 % (1995)
(Source: Ministry of Finance, Cyprus)

- **Population:** in millions of inhabitants
- **GDP per capita*:** per capita gross domestic product in current prices (1996) at purchasing power parities (PPP). EU = 100. Source: Eurostat
- **Unemployment rate**:** percentage of the active population(International Labour Office methodology)

* *Taken together, the 10 Central and Eastern European candidate countries had a GDP per capita (in PPP) equivalent to 32% of the EU average in 1996. (Eurostat)*

** *1996 EU average = 10.9% (August 1996, Eurostat)*

References

Agenda 2000:
<http://www.inforegio.org/wbpro/agenda2000/a2000_en.htm>

Draft regulations to govern the Structural Funds 2000-2006:
<http://www.inforegio.org/wbpro/agenda2000/regul_en.htm>

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