

EUROPEAN PARLIAMENT

Working Documents

1981 - 1982

20 May 1981

DOCUMENT 1-181/81

Report

drawn up on behalf of the Committee on Regional Policy and Regional
Development

**on the Fifth Annual Report (1979) of the Commission of the European
Communities on the European Regional Development Fund
(ERDF)**

Rapporteur: Mrs S. MARTIN

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By letter of 29 July 1980, the Commission of the European Communities presented to the European Parliament, pursuant to Article 21 of Regulation (EEC) No. 724/75 of the Council of 18 March 1975 establishing a European Regional Development Fund as amended by Regulation (EEC) No. 214/79 of the Council of 6 February 1979, the 'Fifth Annual Report (1979) on the European Regional Development Fund'.

By letter of 7 October 1980, the President of the European Parliament authorized the Committee on Regional Policy and Regional Planning to draw up a report on the Commission's Report; the Committee on Budgetary Control was asked for its opinion.

On 28 October 1980 the Committee on Regional Policy and Regional Planning appointed Mrs S. MARTIN rapporteur.

It considered the report at its meetings of 21 and 22 January 1981, 23 and 24 February, 16 and 17 March 1981 and 21 and 22 April 1981.

At its meeting of 21/22 April 1981 the committee adopted the motion for a resolution and the explanatory statement unanimously.

Present:

Mr De Pasquale, chairman, Mr Edgar Faure, vice-chairman (replacing the rapporteur, Mrs Martin), Mr Blaney, Mr Cardia (deputizing for Mr Kappos), Mr Fanti, Mr Griffiths, Mr Harris, Mrs Kellet-Bowmann, Mr Ligios (deputizing for Mr Lima), Mr Pöttering, Mr Puletti, Miss Quin (deputizing for Mr Hume), Mr Sherlock (deputizing for Mr Hutton), Mr J.D. Taylor, Mr Van der Gun (deputizing for Mrs Boot) and Mr Zardinidis.

The opinion of the Committee on Budgetary Control is attached to this report.

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The Committee on Regional Policy and Regional Planning hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

on the Fifth Annual Report (1979) of the Commission of the European Communities on the European Regional Development Fund

The European Parliament,

- having regard to the Fifth Annual Report (1979) on the European Regional Development Fund presented by the Commission of the European Communities, pursuant to Article 21 of Council Regulation (EEC) No. 724/75 of 18 March 1975 establishing a European Regional Development Fund, as amended by Regulation (EEC) No. 214/79 of 6 February 1979 (COM(80) 460 final),
- having regard to the report of the Committee on Regional Policy and Regional Planning and the opinion of the Committee on Budgetary Control (Doc. 1-181/81),
- referring to its previous opinions of 12 March 1975¹, 21 April 1977² and 13 October 1977³ on the Fund Regulation, and of 16 December 1976⁴, 17 January 1978⁵, 12 February 1979⁶ and 15 April 1980⁷ on the annual reports for 1975, 1976, 1977 and 1978,

¹ OJ No. C 76, 7.4.1975, p. 22

² OJ No. C 118, 16.5.1977, p. 45

³ OJ No. C 266, 7.11.1977, p. 35

⁴ OJ No. C 6, 10.1.1977, p. 86

⁵ OJ No. C 36, 13.2.1978, p. 11

⁶ OJ No. C 67, 12.3.1979, p. 13

⁷ OJ No. C 117, 12.5.1980, p. 18

1. Points out that, despite the aid policies of the Member States and the Community, the divergence between average per capita incomes in the richer and poorer regions of the Community has increased considerably since 1970;
2. Points out that the Heads of State or Government, meeting in Paris in October 1972, agreed that 'a high priority' should be given to the aim of correcting the structural and regional imbalances in the Community, but that unfortunately they have been unable to convert their commitments into reality;
3. Points out that the European Regional Development Fund (ERDF) is only one of the instruments of Community regional policy, which must be based on the establishment of an overall analytical and conceptual framework at regional level, assessment of the regional impact of other Community policies and coordination of national and Community policies and financial instruments for regional aid;
4. Considers that the ERDF makes a significant contribution in regions where aid is concentrated, for example Greenland, which received 573 EUA per inhabitant for the period 1975-1979, followed by Northern Ireland (66 EUA per inhabitant), Molise (57 EUA per inhabitant), Sardinia (53 EUA per inhabitant), Ireland (48 EUA per inhabitant), Limousin (38 EUA per inhabitant), etc.;
5. Stresses, however, that the appropriations available are totally inadequate to help reduce the widening development gap, to make a significant contribution to the battle against unemployment and thus to go some way towards meeting the objective of the Common Regional Policy, namely to reduce economic and social disparities between the regions;
6. Points out that the revised Regulation of 6 February 1979 did not remedy the many shortcomings to which the European Parliament had already drawn attention in its previous opinions, and that the Council undertook, in the framework of the conciliation procedure with the European Parliament, to take special note of the Assembly's concerns during the next review, which should have taken place before 1 January 1981;
7. Points out that it advocated the setting up of a non-quota section, and deplores the fact that the Council of Ministers amended the Commission proposals by changing their scope;

8. Points out that the fixing in the Regulation of an amount, even if only as a percentage, for the non-quota section, limits the power of the European Parliament to monitor the establishment and use of the Fund's resources, which are non-compulsory expenditure and should therefore be determined annually as part of the budget procedure;
9. Points out that the percentage for the non-quota section is too low (5%), particularly when compared with the endowment proposed by the Commission in the preliminary draft budget for 1978 (13%), and is not commensurate with the objectives of this section;
10. Points out that the adoption by the Council of the unanimous voting procedure for the approval of each specific project introduces a right of veto;
11. Points out that the revised Regulation grants France an additional quota of 2% for the French overseas departments, and deplores the fact that in 1979 this amount was not spent on these particularly deprived regions;
12. Refers to Article 5(1)(d) of Council Regulation (EEC) No. 724/75 of 18 March 1975 setting up a European Regional Development Fund and deplores the fact that in 1979 no ERDF aid was allocated for cross-frontier investments;
13. Welcomes the fact that in revising the Fund Regulation the Council followed the proposals of the European Parliament by adopting a broad definition of the concept of infrastructure;
14. Points out that the effectiveness of the funds, which are small by comparison with requirements, depends on respect for the principle of additionality or complementarity with national expenditure;
15. Deplores the fact that the Member States have continued to use aid granted from the Fund for industrial projects as partial repayment of national aid, whereas Community aid may supplement public aid, thus facilitating control and publicity;
16. Considers that the public has a right to be informed of the uses made of Community funds which are provided by European taxpayers, and considers that an increase in the resources available to the Fund is acceptable only if the uses to which these funds are put are known both to investors and the public at large;
17. Considers that assistance from the Regional Fund for specified projects is a particularly suitable means of drawing public attention to Community activities, and considers that this information can be effective only if the complementary nature of assistance from the Fund can be demonstrated;

18. Stresses the importance of submitting requests and making payments promptly, so that the impact of the Fund may be felt more rapidly, and deplores the delay in making payments from the Fund in the case of Italy in particular;
19. Recommends, in order to speed up the flow of capital to the weaker regions, the adoption of a system allowing for large advance payments;
20. Points out that the industrial projects costing less than 10 million EUA have created the largest number of jobs in relation to the size of investments and the amount of aid from the Fund, and recommends that aid be granted in particular for smaller industrial projects which create more employment;
21. Points out that the European Parliament has an obligation to ensure that Community financial resources are used effectively, and that the absence of additionality for individual industrial projects, the inaccuracy of and lack of comparability between statistical data, the lack of information and publicity about the Fund's activities and the deficiencies in the regional development programmes prevent any serious economic analysis of the impact of Community aid;
22. Draws the attention of the Member States to the need to submit regional development programmes in good time and to the possibility of submitting plans for studies in the area of regional policy;
23. Finds it deplorable that one Member State should continue to impede on-the-spot checks by Community officials of the regularity of payments of ERDF aid, and invites the Commission to consider the possibility of suspending Fund assistance in cases where national authorities of the Member States impede Community auditing work;
24. Recommends that the Commission should continue its technical and financial controls but that it should concentrate on socio-economic aspects;
25. Stresses the importance of the two integrated operations for Naples and Belfast and recommends that this type of operation be extended to other areas of the Community;
26. Points out the need to increase the number of officials in the Directorate-General for Regional Policy, with a view to extending existing activities and developing new ones, and the particular need for more serious checking of the socio-economic effectiveness of aid granted;
27. Calls on the Commission to forward to it the annual reports of the Regional Policy Committee;
28. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT

A. INTRODUCTION

1. The Heads of State and Government meeting in Paris in 1972 acknowledged the 'high priority' of the objective of redressing regional imbalances in the Community.

The Community's regional policy must be used to correct Europe's regional disparities since this cannot be achieved by economic policies alone. It will however be impossible to combat disparities between the regions of Europe effectively until the will to do so is manifested in the implementation of all the European policies.

2. It must first be noted that the ERDF is only one instrument of regional policy. All other policies which have an effect on regional development should be coordinated with the activities of the Regional Fund to contribute to a reduction of regional imbalances.

But the role of the ERDF is not unimportant. Table 1, showing regional aid in 1978 (see point 34) illustrates the volume of investments supported by the Regional Fund in comparison with the volume of investments receiving support from public funds. However, the statistics provided by the Member States hardly allow a valid comparison.

Table 8 (point 68) is, on the other hand, much more significant since it shows ERDF assistance per head in certain priority regions. The activities of the Regional Fund must be concentrated on these priority regions and the impact of this concentration may be a determining factor. For the period 1975-1979 Greenland is clearly in front with 573 EUA per inhabitant, followed by Northern Ireland with 66 EUA, Molise 57 EUA, Sardinia 53 EUA, Ireland 48 EUA, Limousin 38 EUA etc., The average figure for the priority regions included in the list is 33 EUA per inhabitant. The French overseas departments are well below this figure, at 20 EUA /habitant.

3. A closer study of ERDF activities in 1979 shows that it was a year of normal growth for the Fund's activities on the lines of the development recorded in previous years.

The European Parliament's opinions on the ERDF reports for 1975-78¹ contain similar criticism which it is not necessary to repeat here².

Reference should be made particularly to the DELMOTTE report (Doc.1-789/79) unanimously adopted by the Committee on Regional Policy and Regional Planning on 24 January 1980.

¹ OJ No. C6, 10.1.1977
OJ No. C36, 13.2.1978
OJ No. C67, 12.3.1979
OJ No. C,

² inadequacy of funds and decline in real value as a result of inflation;
-the need to concentrate the Fund's activities and to define priorities on the basis of Community criteria,
-the need to coordinate all the financial and political instruments which have a regional effect,
-the primordial role of regional development programmes,
-the complementary role of support by the Fund
-the importance of publicity and information about Fund aid,
-the significance of aid for infrastructure and tourism,
-the importance of checking and control procedures.

This latter report covers ERDF activities in 1978 and resumes the European Parliament's opinions on the Regional Fund Regulation and the operation of the Fund. It also contains a very critical examination of the results of the first review of the ERDF which was passed in February 1979, i.e. more than a year behind schedule. The European Parliament endorsed this critical attitude of our committee in its resolution of 15 April 1980. There is therefore little point in repeating these points which should have been taken into consideration by the Council of Ministers in the second review of the ERDF Regulation which was to have been completed by 1 January 1981.

Now that the Commission's proposals for this second review are being considered, our committee should remind the Council of Ministers that it promised to give particular consideration to the concerns expressed by the Assembly.

B. THE NON-QUOTA SECTION

4. A noteworthy event in 1979 was the approval by the Council in February of proposals concerning the first revision of the Fund Regulation, and above all the creation of a non-quota section. Negotiations had been laborious but the principle was finally accepted and the creation of this non-quota section has made it possible to start on a genuine European regional policy.

5. At the start of the second half of 1979 the Commission proposed a first series of five specific measures under the non-quota section. The most important from the point of view of the financial resources involved was the specific measure linked to enlargement for which 120m EUA was earmarked in commitments and payments over the next five years.

The second measure is linked with the reorganisation and reduction of the iron and steel sector - here the resources involved are much more modest. The third measure is concerned with the problems of the shipbuilding industry. There is also a measure concerning sources of energy in the inland regions of the Mezzogiorno. The last specific measure is for the improvement of the integration of the Ireland - Northern Ireland frontier region.

6. Although these measures were given a favourable reception by the European Parliament¹, they have been the subject of fairly long negotiations and it was only during the course of 1980 that the Council was able to give its approval on the proposals. As a result it is as yet impossible to indicate the impact which these specific measures under the new non-quota section are likely to have.

C. PROCEDURES

7. During the review of the Regional Fund a simplification of procedures was proposed. The Regional Fund operates on the basis of projects submitted by the Member States. At the outset the system was to be such that major infrastructure or industrial projects should be considered individually and

¹CRONIN report (Doc. 1-715/79), OJ No. C 85, 8.4.1980

that projects involving less than 10m EUA should be presented globally. During the first few years of the Fund's operation the main problem, despite the global presentation of projects under 10m EUA, was the consultation of the Regional Fund Committee. It was therefore proposed during the first review of the Regulation that consultation of the Committee should not be required for projects under 5m EUA.

8. This idea did not gain the support of the Member States who went only so far as to accept a certain simplification of the procedures under which requests are notified to the Member States and the Committee is only consulted on projects in respect of which a Member State has requested a discussion.

9. Unfortunately this simplification does not seem to go far enough. Particularly in 1980 with a Fund which is practically twice as large as it was at the time when this procedural simplification was proposed, forwarding all the projects to all the different countries has become a very heavy administrative burden, due to problems of translation, reproduction, etc. Our conclusion must be that unless a programme system is adopted (which would have the advantage of presenting a more complete overall view, but the disadvantage that the Community would have no direct knowledge of the specific projects which were to be implemented), a system of improved procedures will have to be found such as the one already proposed by the Commission nearly three years ago. Otherwise, in view of the growing volume of resources and projects, the Commission will not be able to keep to the deadlines.

This point must be stressed for the next review of the Regulation. Meanwhile, although the simplified procedures system has not gone far enough, it has made work easier. Thus, in 1980, it will have been possible to utilise all the available resources.

D. THE NATIONAL QUOTAS

10. 1979 saw a change as regards the national quotas. It was decided to grant France a supplementary quota of 2% to take account of the overseas departments. The French authorities only used up a proportion (hardly 1.2%) of this 2% for the overseas departments in 1979.

The Commission will have to insist that the national authorities involved grant the overseas departments their full 2%. These regions are in fact at a great disadvantage by virtue of their level of development and their very great distance from the centre of the Community.

However, it seems that in 1980 France succeeded in giving its overseas departments their full quota

E. FUND ACTIVITY: THE PROJECTS

11. As for the Fund itself, 1979 brought an increase of about 50% in financial resources compared with the previous year. Despite this increase the resources available were fully committed, viz. 900m EUA plus an outstanding amount of 65.33m EUA (which for exceptional reasons could not be committed the year before).

12. Some 3600 projects were submitted to the Commission; of these the Commission upheld approximately 2700, which means that about 900 projects were rejected, because they were inadmissible or because the Commission did not think it appropriate to go ahead with them. This figure (which represents somewhat less than a third of the projects accepted) shows on the one hand that the Commission can, and indeed has, to make a choice, and on the other hand that despite the efforts of the Member States to present selected projects, there is still a significant number which, on examination, do not meet the conditions laid down in the Regulation.

This point is worthy of note as it is one of the problems which will have to be settled when we have a programme system, which will make it infinitely less possible to grasp the true nature of individual situations.

13. The Commission states in point 50, second paragraph, of its Report that 'the motor vehicle industry was in the lead for projects of more than 10 million EUA...' This is a crisis sector. Article 5(1)(c) and 13(1) of the Fund Regulation recommend an examination of the situation of the economic sector. The Commission was asked to give details of the criteria taken for the selection of investments to be supported and to state whether an overall consideration of the situation was undertaken before the files were completed. We believe that the projects should be selected on the basis of the expected effect on the socio-economic development of the region concerned and on the basis of the performance and prospects of the sector involved.

14. Point 56 of the Report recalls that 'projects of less than 10 million EUA created most jobs (as compared to the amount of the investment and/or the Fund contribution)'.

In the present unemployment situation I would therefore recommend the Commission to grant aid primarily to these small projects which create more jobs, despite the priority which Article 7(5) of the Fund Regulation accords to major projects. Projects of less than 10 million EUA only took 51% of the aid granted by the Fund.

F. COMMITMENTS AND PAYMENTS

15. It must be stressed that all the commitment appropriations for 1979 were taken up. Despite the Commission's fairly rigorous selection, there remained a fairly large number of projects which could have been granted aid and which had to be held over to the next year, i.e. 1980, because of the lack of commitment appropriations.

16. On the other hand, we note an interesting growth of payment appropriations. Indeed payments practically doubled in comparison with the previous year, i.e. the Commission disbursed about 500m EUA. But this did not prevent some non-utilised payment appropriations having to be carried over to 1980 as a result of the very large carry-over of unused payment appropriations for 1978.

This is a problem with which the Committee on Regional Policy and Regional Planning is familiar. Each year we have had to debate the problem of payment appropriations when the budget was being finalised, because there is often a tendency to fix an amount for payment appropriations higher than the amount which can in effect be realised on the basis of the available commitment appropriations.

If the commitment appropriations increase by 100% the payment appropriations can be increased by the same amount, but it is illogical to increase the payment appropriations without a corresponding increase in the commitment appropriations. However, during recent years there has been a tendency to make greater increases in the payment appropriations.

17. It should also be added that for a given commitment the Commission is dependent on the Member State concerned when it comes to making payments. The Member States themselves are dependent on the nature of the projects which have been submitted and approved. If a project is to be carried out over a five-year period, there is little chance of all the amount committed being paid before the end of the five years, although this may be the case in the course of the sixth year. On the other hand in the case of a series of minor projects or instalments of one or two years, it is evident that commitments may lead to payments over one or two years.

18. In point 132 the Commission points out that 'by the end of 1979 53.2% of total commitments' since the creation of the Fund had been paid out and 'Italy, with 44.7% was well below the average.' It must be pointed out that this delay on the part of Italy considerably reduces the Community average, since Italy receives 40% of the ERDF funds.

The rate of utilisation of ERDF resources by Italy is not only well below the Community average; it has been dropping since 1975. In 1975 48.9% of payments were made in Italy (this amount fell to 42.7% in 1976, 40.1% in 1977, 30.8% in 1978 and finally 28% in 1979). What does the Commission believe to be the cause of this delay in payments by Italy?

19. In 1979 the accelerated payment system was introduced. It gave satisfactory results in that it speeded up a certain number of payments which would otherwise not have been made until 1980. However not too much should be expected of the accelerated payment system. For a certain time the Commission will make payments earlier than it would otherwise have done but this will clearly be followed by a period when payments stop. After a 'catching up' process, the flow of finance will then start again at a certain rate, depending on the speed at which investments are realised.

20. The only way of radically improving the money flow to countries with weak regions and to these regions would seem to be by paying large sums in advance. During the first review of the Regulation the Parliament had asked for a system of advance payments. The accelerated payments represented a compromise between

the Commission and the Council since some Member States were not prepared to accept a system of advances. But in the next review, provision must be made for large advances. There will be all the more reason for this as long as the system operates with the Member States as intermediaries. Indeed, in such a case, any unwarranted payment could be recovered more easily than if there were a direct relationship with a local organisation or private investor. It is interesting to note that 90% of the payments for the United Kingdom's supplementary measures is to take the form of advances. It can hardly be concluded that there is a tendency for Member States to see the British supplementary measures as regional measures; on the contrary several Member States have insisted on the distinction which must be made between these two forms of intervention.

This is nevertheless an interesting point which should be borne in mind when the Parliament comes to consider the new proposals for the second review of the Regulation.

G. ADDITIONALITY AND INFORMATION

21. Minimal progress has been made on the principle of complementarity. Generally speaking, the Member States have responded to the Commission's insistence that they should have separate budgetary lines for revenue and expenditure from Community funds. However it is very difficult to argue that this is a demonstration of an extra effort by the Member States, depending as it does on the receipt of Community resources. It will always be impossible to give an absolutely irrefutable demonstration, but it is easier to determine possible complementarity with investments made by local authorities than it is to compare fund aid with the national resources of the Member State itself.

When the Commission disburses a certain volume of resources from the Regional Fund to a Member State, it is difficult for the Commission to indicate what the Member State's total effort would have had to be to ensure complementary utilisation of the resources of the Regional Fund. On the other hand, a local authority which has a fixed programme of investments and limited resources can effectively demonstrate that certain investments which it had envisaged for the third or fourth year will be made a year or two earlier if it receives funds from the ERDF. Here it is easier for the Commission to ascertain the complementarity and the stimulating effect this will have. This is one reason why the European Parliament has always recorded its preference for aid for investments by regional or local authorities.

The problem of the complementary nature of the activities of the Regional Fund and those of the Member States still remains and it will be necessary to reexamine it during the second revision of the Fund. Indeed Article 4(2) (a) still lays down that aid from the Fund may.. 'remain credited to those (public) authorities and considered as a partial repayment of such aid.'

22. The European Parliament has already stressed the great importance of information about aid from the Fund. This information will be made easier and will have a greater impact if the complementary nature of the Fund can be demonstrated and if the projects or programmes aided can be individually identified.

H. CONTROLS

23. Last year we were faced with an issue concerning checks on the activities of the Regional Fund, viz., the restrictive interpretation given by one of the Member States to the text of Article 9(3) of the ERDF Regulation.

The Commission is encountering certain difficulties with some Member States as regards on-the-spot checks concerning industrial investments. The Parliament has been very aware of this problem and the Commission could institute proceedings against the recalcitrant States and also suspend payments for projects in respect of which any government refuses to allow checks to be carried out on the spot by Community officials.

However, a satisfactory solution does seem to be in prospect in view of the proposals made by the state concerned.

24. The control of the management of the Fund is primarily intended to ascertain whether the interventions by the Fund have had the desired positive effect on the region concerned, and in particular whether better results have been obtained as regards development and whether these results have been obtained at a lower cost to the Community as a whole.

The Commission states that 'spot checks in 1979 started to bear, apart from purely technical aspects, more systematically than in the past on the social-economic aspects of the projects inspected. The Commission, while aware of the complex character of assessment of impact of projects aided from the Regional Development Fund, has endeavoured to ascertain in the light of regional development guidelines, the real contribution of aided projects' (point 139). The Commission nevertheless points out that 'it must be noted that there is a long way to go before achieving effective inspection and checks of the economic results of regional measures.' (point 140).

The Committee on Regional Policy recommends the Commission to continue along these lines while observing that better control of the effectiveness of the ERDF will depend on the improvement of the statistical instruments of the regions and of the Community.

I. INTEGRATED OPERATIONS

25. A new element which took on a certain degree of importance in 1979 was the preparation of integrated operations. The Commission is trying two experimental operations in Naples and Belfast. The Naples operation was the only one to take real shape in 1979. It seems to have lived up to justified hopes that it would make it possible to detect a significant number of bottlenecks for a number of investments planned for the Naples region, and at the same time to exert some pressure on national authorities to encourage

them to take some decisions which had been held up. The Commission obtained interesting results and this is an approach which should probably be extended to other regions or areas of the Community in the future.

J. STAFF

26. Attention must once again be drawn to the problem of the number of staff at the Commission, which has remained constant for the last five years, although five years ago the Fund totalled only 350m EUA. With such a small staff it is impossible to investigate files for the 1,500m EUA of the ERDF and the 1,000m EUA connected with the supplementary measures for the United Kingdom, to implement the non-quota section, to prepare the review of the Fund Regulation and to carry out integrated operations all at the same time. This is a point which must definitely be taken into account when it comes to examining the budget for 1982.

K. THE COURT OF AUDITORS' REPORT FOR 1979 (Chapter 7 on the ERDF)

27. The Annual Report of the Court of Auditors for the financial year 1979 contains a chapter (Chapter 7) devoted to the European Regional Development Fund¹, covering the activities of the Fund in 1979, and Annex IV contains the Commission's replies to the comments of the Court of Auditors concerning the management of the ERDF².

28. The rapporteur for the Committee on Regional Policy and Regional Planning has examined with interest the Court of Auditors' analysis and observations.

Generally speaking, the rapporteur agrees with these conclusions. For example, point 7.10 of the Court of Auditors' report and point 18 of this report refer to the rate of utilisation of ERDF resources and ask why Italy is behind on payments.

Point 7.15 of the Court's report and point 23 of the Commission's report deplore one government's refusal to allow Commission officials to carry out on-the-spot checks.

Points 7.17 and 7.38 to 7.42 of the Court's Report and point 24 of this Report emphasise the expected effects of ERDF aid on the development of a region. There is a need to look beyond the purely technical financial aspects of controls and give greater emphasis to the social and economic effects of the investments which are being scrutinised.

29. The Court of Auditors' analysis and comments, which sometimes refer to precise examples, are to be encouraged. The rapporteur of the Committee on Regional Policy welcomes the conclusions of the Court of Auditors' Report concerning the management of the ERDF in 1979.

¹ (Doc. 662/80) Pages 112-124

² (Doc. 662/80) Pages 276 and 277

Opinion of the Committee on Budgetary Control

Draftsman: Mr GOUTHIER

At the sitting of the European Parliament of 13 November 1980 the Committee on Budgetary Control was asked for its opinion on the Fifth Annual Report (1979) on the ERDF.

At its meeting of 16 - 18 February 1981 it confirmed Mr Gouthier's appointment as draftsman and unanimously adopted his opinion.

Present : Mr Dankert, acting chairman; Mrs Boserup, vice-chairman; Mr Gouthier, draftsman; Mr Colla, Mr Gabert, Mr Irmer, Mr Langes, Mr Kellett-Bowman, Mr Notenboom and Mr Simonnet.

1. Twice a year the Committee on Budgetary Control has the opportunity to comment on implementation of the budget in respect of the Regional Fund: firstly in connection with the annual report of the Court of Auditors, as part of the procedure for granting a discharge to the Commission, and secondly in an opinion for the Committee on Regional Policy in connection with the Commission's annual report on the Regional Fund.

The Fifth Annual Report of the Fund is now available; it covers the 1979 financial year.

2. The Fifth Report indicates that the problems of the ERDF have remained largely the same. Your draftsman therefore refers you specifically to previous reports on the subject, in particular:

- opinion on the fourth annual report (1978) on the ERDF (PE 60.261/fin.)
- working document on the discharge for the implementation of the measures relating to the ERDF during the 1978 financial year (PE 64.123/Ann. VI/fin, pages 139 - 147)

and to the observations in the resolution (Paragraphs 40 to 44) and in the general report (page 35) on the discharge for 1978 (Doc. 1-150/80).

3. 1979 budget situation

Appropriations			Utilization		Carried over to next year	
	Outstanding from		amount	%		
	1979	previous years			Total	
Commitments	900	65.33	965.33	962.11	99.7	3.22
Payment Appropriations	483	353.19	836.19	513.15	61.4	353.04

Commitments			Payments in 1979	
Commitments 1975-78	unpaid on 1.1.79:	683.91	282.9	(41%)
Commitments 1979	entered into in 1979 :	962.11	230.2	(24%)
Total outstanding commitments in 1979		1646.02	513.1	(31%)

4. The ERDF has thus in effect made good the slight arrears in the discharge of commitments, but on the payments side the sums carried over from earlier years remain largely unused.

5. The less favourable situation for payment appropriations is apparent when these are compared with the total of outstanding commitments: the 24% level of payments against commitments entered into in 1979 is close to the percentage stated as normal for the first year in the preliminary draft budget for 1980 and 1981 (part 7, pages 253 and 584). It should however be noted that for 1979, the year to which these figures refer, the Commission still gives 35% as the normal average in the preliminary draft budget (1979, 7A, page 31). Moreover, Parliament has already indicated its view that priority must be given to rectifying the lengthy delays in payments rather than to a different payments distribution scheme (Dankert report, Doc. 1-458/79, point 212).

6. In point 134 of the fifth annual report the Commission points out that 56% of commitments in 1979 were decided on in the very last days of the year. This is acceptable for 1979 as the commitments increased very sharply that year. It also suggests that in years with a more uniform rate of increase in appropriations it would be possible to achieve the 35% ratio of payments to commitments desired by Parliament.

7. Between 1975 and 1980 appropriations progressed as follows :

	Commitments			Payment appropriations			
	initial appropriation	final appropriation	Utilization	initial appropriation	final appropriation	carried over	
1975	300			150		90,67	
1976	500			300		277.73	
1977	500			400		372.51	
1978	581	596	553	525	608	254.89	353
1979	1,000	943	940	483	836	513.15	323
1980 ¹	1,165	1,110		392	715	(715)	(-)
1981	1,520			750			

¹ Preliminary draft budget 1981

Payments in 1979 are analysed in the table below:¹

Member State	1957-1977 commitments not paid out at 31.12.1978	1979 commitments ²	1979 payments	Commitments made but not paid at 31.12.1979	Payments as % of commitments end 1979
	MEUA	MEUA	MEUA	MEUA	
Belgium	13.16	8.93	3.10	18.99	51.6
Denmark	9.99	10.57	9.13	11.43	66.4
Germany	52.91	57.05	46.03	63.93	68.7
France	140.57	158.75	103.61	195.71	54.2
Ireland	37.46	61.24	32.89	65.81	55.1
Italy	261.28	375.97	143.72	493.53	44.4
Luxembourg	0.96	0.81	0.30	1.47	49.8
Netherlands	15.93	11.24	8.64	18.53	61.6
United Kingdom	173.50	255.70	165.73	263.47	58.1
TOTAL	705.76	940.26	513.15	1,132.87	53.2

² Account being taken of decommitments and adjustments due to ECU exchange rate variations

8. Whilst the 41% level of payments against commitments entered into between 1975-78 indicated in point 3 seems reasonable at first sight, closer examination of the figure gives cause for concern. According to the scale used by the Commission for the ratio of commitments to payment appropriations (25% first year, 45% second year, then three years at 10%) the 282.9 MEUA payments against commitments from 1975-78 should already include 45% of 581 MEUA commitments in 1978 or 261.45 MEUA. The figure of 282.9 MEUA for payments also means that at the beginning of 1980 there were still 401 MEUA of commitments from 1975-78 which had not been paid.

Of the total commitments entered into since the inception of the Fund, 46.8% remained unpaid at the end of 1979 (52.3% at the end of 1978): 1,132.9 MEUA of \mp 2,129.5 MEUA (1975-1979).

Average percentages hide large discrepancies: the following countries exceed the average of 53.2%: Germany (68.7), Denmark (66.4), and the Netherlands (61.6) whilst Italy is below (44.4).

9. These observations together with the decline in payment appropriations since 1979, indicating that the budgetary authority has taken into account any overprovision in 1978, suggest that there is an urgent need for serious additional efforts by the Commission.

¹ Source: COM(80) 460 final - Fifth annual report on the ERDF paragraph 131

Provisions for accelerated payment

10. The Commission hopes to make up for the delay through the amendment to the basic regulation adopted at the beginning of 1979, which now permits accelerated payments of up to 75% of the total amount of aid from the Fund, provided that at least 30% of the payments constituting the basis for aid have been made (Article 8(3)) of Council Regulation (EEC) No. 724/75 of 18 March 1975 as amended by Regulation (EEC) No. 214/79 of 6.2.1979).¹

11. For 1979, when these provisions were first applied, the Commission estimates the net effect at not more than 150 MEUA, therefore offering little hope for a speedy utilization of the amounts carried over from previous years.

12. Nevertheless the Commission states that it has completed this process in 1980 and proposes a substantial increase in the appropriations requested for 1981 by comparison with 1980 (see point 7).

New methods of financing

13. Following the debate in Parliament on the supplementary measures for the United Kingdom, the Commission hinted that it wished to extend to the Regional Fund the financing methods for programmes rather than projects.

A similar intention is expressed in the annual report where there is reference to considering, on the basis of experience with the non-quota section, whether a similar system should be proposed for the quota section.

14. Although these plans will doubtless bring about an accelerated use of payment appropriations, they create real difficulties for efficient checks and recovery of excess payments. The Committee on Budgetary Control should start to consider this problem immediately.

Administrative aspects

15. The following table outlines the Fund's activities in 1979.

¹ OJ No. L 35, 9.2.1979, p.1

	Number of decisions on assistance	Number of investment projects involved	Amount of investment (m.EUA)	Assistance granted, commitments '79 (m.EUA)	Payment appropriations for commitments in 1979 (m.EUA)
B	7	17	68.80	9.08	-
Dk	15	84	60.71	11.14	1.87
D	80	213	1,144.89	59.46	22.65
F	98	428	1,673.99	159.39	48.33
IRL	17	135	333.27	62.19	14.70
It	84	1,466	4,368.07	388.08	44.05
L	1	2	3.12	0.81	-
NL	3	6	47.53	11.43	-
UK	105	484	2,343.00	260.31	98.61
TOT.	410	2,835	10,048.38	961.80	230.22

16. In 1979 simplified procedures were used for small investments (under 10 MEUA) which covered almost half the assistance requested from the fund in 1979.

However, the Commission encountered difficulties because 45% of these requests were only submitted in the period from August to October and because many applications were incomplete. The Commission adds that 'it is generally less difficult to obtain these supplementary details where Member States allow the Commission to make contact on information matters with the responsible regional and local authorities' (point 150, end.).

17. The Commission requested Member States to work out more thoroughly their regional development programmes and to provide more information on utilization of resources from the Fund. The statistical information the Member States must provide is still too hazy about the real relationship between national expenditure and contributions from the Fund. It is also submitted very late. One Member State had not even provided any information by the end of the year.

Checks

18. In 1979 the Commission carried out on-the-spot checks for 181 projects. It was thus able to achieve the target of checks on 10% of the total number of assisted projects for the period 1975-78. The fast-growing number of projects will make this more difficult in future. We are in full agreement with the Commission's comment that the standard of inspection must not be sacrificed to obtain a purely quantitative result.

19. The Committee on Budgetary Control is conscious of the staffing problems involved in this aspect of the Fund's work and notes the Commission's efforts to refine the criteria for the selection of projects for inspection which should improve the quality of the checks and reduce the actual work involved.

20. However, the Commission points out that there is still a long way to go before achieving effective inspection and check of the economic results of regional measures (point 140 of the report). This aspect is extremely important for political control of the policy implemented. The Committee on Budgetary Control therefore calls on the Commission to submit proposals immediately for the method to be operated at Community level which are said to be in preparation.

21. The on-the-spot checks in 1979 revealed a number of irregularities. The annual report describes some cases. As applications for assistance are submitted via the national authorities it is surprising that abuses occur, for example, investments which are meant to provide new employment in fact only involving modernization with maintenance of existing numbers of jobs.

The Committee on Budgetary Control wishes to have a clearer picture of the problems and therefore requests a full report from the Commission on irregularities discovered recently, community or national measures taken to prevent any further irregularities and the amounts which could be recovered or which must be viewed as lost.

INFORMATION

22. Parliament has always considered it important that the Fund's activities should be accompanied by effective publicity campaigns. Publicity is effected through:

- information to the press
- advertising hoardings (point 146 of the annual report contains photographs of such hoardings)
- announcements in the Official Journal
- information to investors

In Ireland, and even more so in Italy and the United Kingdom, such activities seem to get a good response. The effect is far smaller in the Federal Republic of Germany and in France, where the press makes little use of information on the Fund's activities, probably because such information is not available for the individual projects for which aid is given.

23. Investors to whom Community aid has been granted are not always informed directly by the Commission, but sometimes by national bodies.

The Commission ought to conclude agreements with all the Member States allowing it to inform directly the recipients of aid from the Fund.

24. It is also essential that the Commission should be allowed, in all Member States, to take part in on-the-spot checks on Community investments. This facility seems to be particularly lacking in respect of certain industrial sectors.

The Committee on Budgetary Control urges the Commission to conclude agreements with the national authorities allowing it to take part in on-the-spot checks as laid down in Article 9(3) of the ERDF Regulation.

POLICY

25. At this stage the Committee on Budgetary Control does not wish to give its opinion on the control of quota changes, the use of the different options for assistance offered by the Fund, the complementary nature of Community support and efforts regarding integrated operations. It expects to deal with these problems during the preparation of the discharge to be granted to the Commission.

26. The non-quota section was not operational in 1979. It is unfortunate, also as regards implementation of the budget in line with the wishes of the budgetary authority, that the most 'Community-oriented' part of the ERDF could not be made operational in time.

CONCLUSION

27. By comparison with comments made in earlier years on implementation of the budget for the Regional Fund, there has been greater use of available appropriations, thanks especially to simplified procedures and the accelerated advances system.

The rate of use of payment appropriations in 1979, however, does not permit these developments to be described as adequate.

28. In respect of control of the execution of aid the Committee on Budgetary Control stresses again how important it is for the Commission to make greater progress in effective inspection regarding technical and financial aspects and the effect of the assistance on the region's development.

The Committee on Budgetary Control therefore requests the Committee on Regional Policy and Regional Planning to include the following points in its motion for a resolution :

- (a) notes with satisfaction that the simplified and accelerated procedures introduced in 1979 have already had a favourable effect this year on the flow of appropriations; regrets, however, that the payment appropriations carried over from earlier years have only been absorbed to a limited extent;
- (b) reaffirms its support for the principle that ERDF aid should be additional to national efforts;
- (c) requests the Commission, as part of its inspection activities, to give greater priority to expenditure under the Regional Fund;

- (d) insists that the Commission be allowed to participate in on-the-spot checks pursuant to Article 9(3) of the ERDF Regulation¹;
- (e) requests the Commission to urge the Member States to intensify their efforts to give greater publicity to ERDF aid;
- (f) expects the Commission to make proposals immediately to allow real comparison at Community level of the economic results of regional measures.

¹ Council Regulation (EEC) No. 724/75 of 18 March 1975 (OJ No. L 73 of 21.3.75), amended by Regulation (EEC) No. 214/79 (OJ No. L 35, 9.2.1979)

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