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OPINION

by the Committee on Budgets

on the First Annual Report (1975) of the Commission of the European
Communities on the European Regional Development Fund

Draftsman: Mr M. YEATS

PE 46.225/fin./Annex

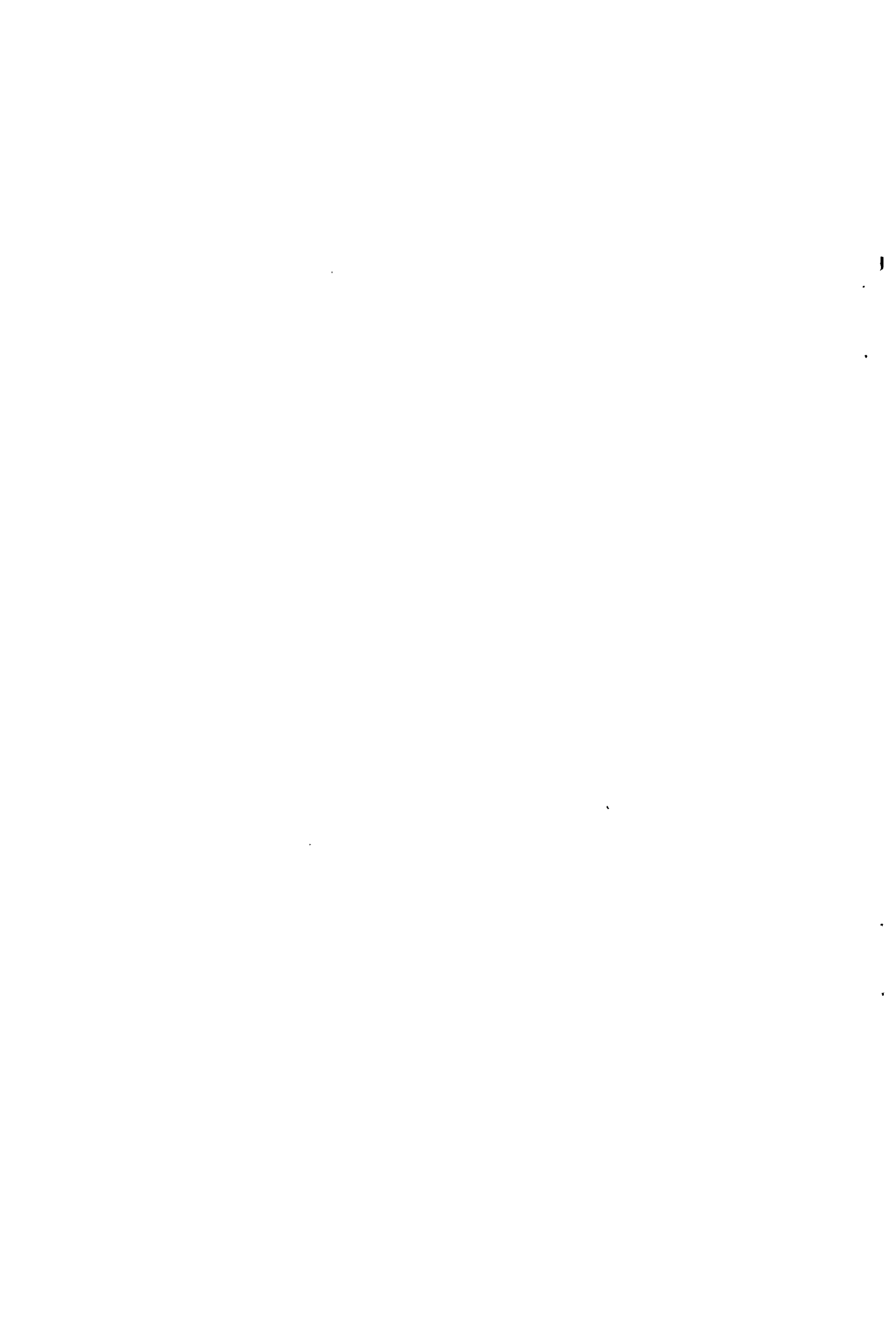


OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr Michael B. YEATS

At its meeting on 14 July 1976, the Committee on Budgets appointed Mr Yeats draftsman. It considered the draft opinion at its meeting of 1 and 2 December 1976 and adopted it unanimously.

Present: Mr Lange, chairman; Mr Yeats, draftsman; Mr Albertini, Mr Artzinger, Lord Bruce of Donington, Mr Cointant, Mr Früh, Mr Haase, Mrs Kellett-Bowman, (deputizing for Lord Bessborough), Mr Notenboom, Mr Patijn and Mr Shaw.



Treaty Aspects of the Regional Fund

1. The EEC Treaty recognises that among the basic inspirations of the Member States is an anxiety to 'strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions'.

2. Clearly, in the circumstances of the Nine Member States, where wide regional disparities within and between countries exist, an effective regional policy is essential if balanced growth is to be assured, if tensions between the highly industrialised areas and the less favoured districts are to be avoided and if economic integration is to be achieved without long delay.

3. As was succinctly stated in a Document¹ recently prepared by the European Parliament Secretariat:

'Community regional policy is an essential balancing factor to free competition.

Without it, the process of economic integration would be in danger of leading to the concentration of economic activity in the most highly industrialised areas and would aggravate disparities which, both in the Community and within each Member State, are the main obstacle to a coordinated economic policy.'

4. The Treaty does not contain provisions for a comprehensive regional policy; therefore, the establishment of the ERDF was effected under the provisions of Article 235 of the Treaty. In itself, of course, the ERDF does not constitute a regional policy. It is - as, indeed, is pointed out in the introductory chapter to the report now under consideration - no more than one instrument² of such a policy.

5. The ERDF, now in existence, has been sought for by Parliament for a considerable number of years³. Parliament pressed for early action in this domain and, moreover, supported a more substantial provision (2,250 m.u.a.) than that of 1,300 m.u.a. which was, in fact, provided;

¹ 'The Effects on Ireland of Membership of the European Communities' prepared at the request of the EPD group.

² Other Community instruments are the Social Fund, the EAGGF Guidance Fund, as well as the activities of the ECSC and the EIB.

³ See documents 120/73, 178/73, 228/73 and Parliament's resolution (OJC 108/51 of 10.12.73) concerning

- I. a Decision on the creation of a Committee for Regional Policy
- II. a Financial Regulation relating to special provisions to be applied to the European Regional Development Fund
- III. a Regulation establishing a Regional Development Fund

also, Parliament:-

- sought that greater account should be taken of social and human factors, as well as of economic concepts, in regional policy;
- insisted on the need for deeper regional analysis, thus enabling the Council to identify the more pressing regional problems;
- drew attention to the need to concentrate limited resources on specific regions;and
- considered that the active participation of local and regional authorities and of the social partners concerned should be encouraged.

Background to the setting up of the present ERDF

6. At its November 1974 part-session, the European Parliament gave earnest to its strong support for the regional fund by entering in the 1975 budget an amount of 300 m.u.a. for that fund. This stressed Parliament's view that the item represented non-compulsory expenditure. However, Council rejected Parliament's amendment on the grounds that there was no legal basis for the entry.

7. When the Conference of Heads of State and government met in Paris on 9th and 10th December 1974, it was agreed to establish the ERDF from 1st January 1975 for a total amount of 1,300 m.u.a., 300 m.u.a. being envisaged for 1975 and 500 m.u.a. in each of the years 1976 and 1977. This is a wholly inadequate total, having regard to the very great adjustments that require to be made to the balance between the different areas of the Community. The regulation¹ establishing the ERDF was adopted by Council on 18th March 1975. The existing fund constitutes a beginning and, from 1978 onwards, a far more substantial fund is to be hoped for if the contribution which could be made towards European integration and the improvement in economic balance within the Community, by such a fund, is to be realised.

Examination of the first report

8. The Commission is required to furnish annual reports on the working of the Fund by July of each year². The Committee on Budgets notes with satisfaction that the first report has been transmitted within the deadline laid down.

¹ OJ No. L73/1 21.3.75

² Article 16 (1) of Regulation No 724/75

9. The Committee on Budgets considers that, from its point of view, being concerned mainly with the financial aspects, the Commission's report should be read in conjunction with the relevant part of the Audit Board's report on the 1975 financial year.

1975 Commitments

10. Of the 300 m.u.a. in commitments available for 1975, 299.8 m.u.a. or 99.9% were, in fact, committed.⁺ This high level of utilization was rendered possible, it would appear, by covering many projects which had been decided on even before the Regional Fund had been set up. It may be that some of the projects concerned in the first series of decisions were already completed when the Community funds were committed¹. In such cases, the use of Community money could have had no stimulating effect and the resources made available would constitute no more than the provision of additional general budgetary resources for the Member States' internal policies, without necessarily adding to the level of regional developmental outlay. Moreover, such use of Community funds could have implications for the rights of the Commission under Article 205 of the Treaty in regard to the implementing of the budget.

Wide dispersion of funds

11. It is evident from the annex to the Commission's report that the limited funds available for use in regional development are widely dispersed.

12. The first year's commitments of 299.8 m.u.a. were spread over 1,183 projects. This has the effect of weakening the already feeble potential of the Fund's limited resources. Clearly, if Community efforts could be concentrated on fewer projects, of a dynamic nature, the impact of the Fund would be considerably strengthened.

Regard should be had for special needs of the peripheral areas

13. Table 3 of the Annex to the Report (Com. (76) 307 final) highlights a feature which was not known, with certainty, when the Fund was being established: the drift apart in the levels of GDP per head of the different groups of Member States: Italy, Ireland, the United Kingdom and the other six contiguous States; while the three first mentioned States showed

⁺ See Annex

¹ See point 44 of the Audit Board's report on the financial year, 1975. The fact that Article 19 of the regulation permits incurred expenditure to be granted aid does not take from the objection in principle.

average annual rates of increase in GDP per head ranging from 6½% to 7½%, five⁺ of the other States showed a remarkably stable rate of growth, on average, ranging between 11% and 12½% on a much higher initial level of GDP. Thus, the background against which the operation of the Regional Fund is to be viewed is one of widening regional incomes differences. The widening of the GDP gap has, rightly, been described as startling by Lord Bruce in his report¹ on the 1977 budget, where he goes on to say that the figures set out at paragraph 9 of the report can be expected to 'grow worse since, with a free movement of capital from both Community countries and outside, investment resources will continue to flow to the more advantaged areas, and the self-regulatory provisions of the Regional Fund cannot have anything more than a trivial and negligible effect on the situation.'

INDEX OF GDP PER HEAD

	<u>1970</u>	<u>1975</u> (At current prices and exchange rates)	Consumer Prices in 1975 ----- 1970 = 100
Denmark	128.6	134.9	155.8
Luxembourg	127.3	117.6	141.7
Germany	124.4	131.4	134.7
France	112.9	122.0	152.2
Belgium	106.6	119.7	149.5
Netherlands	98.8	113.8	151.7
United Kingdom	89.2	78.2	184.4
Italy	70.3	59.2	171.1
Ireland	53.8	47.7	186.4

EEC =	100.0	100.0	

Since the Commission produced COM(76)307 final, the GDP estimates have been revised. The above table, which draws on the latest statistics, shows that, over the five years 1970-1975, the three less well off Member States (Ireland, Italy and the United Kingdom) have fared badly by comparison with the more fortunate Member States. Because the table is at current prices, the divergence is even greater than at first appears, due to the more rapid rise in consumer prices in the three countries. The gap in living standards between these and the rest of the Community is, in fact, continuing to increase. This means that the three countries in question are less able to aid their poorer areas than would be the case if they enjoyed a more satisfactory trend in GDP per person vis-à-vis other Member States.

⁺ Luxembourg, which had a 1975 GDP per head that was 16% higher than the Community average, showed a pattern that was an exception to the experience of the other more favoured Member States.

¹ PE 45.678

Need for a comprehensive approach to the combining of Community instruments

14. The Committee on Budgets tends to the view that Community budgetary policy must be orientated, in a far more comprehensive and sustained way than has been the case up to now, towards a global attack on the Community's regional and structural problems.

15. While the general budget of the European Communities is miniscule by comparison with several yardsticks - it is, for instance, equivalent to less than 0.6 per cent of the combined GDP of the nine Member States - and the regional (and other) funds are even less significant statistically, a determined effort to co-ordinate financial activities and to use all the available instruments to optimum advantage could have the effect of transforming the Community's more backward areas.

The impact which the Community budget can have on regional imbalances would be maximised if

- (i) the activity were directed to channelling the scarce available resources towards solving key infrastructural and regional problems;
- (ii) the Commission's structure were fully geared toward such harmonising of effort;
- (iii) the combined activities of all the Communities funds were viewed as a unit within the framework of a triennial rolling forecast (which should, in any event, take on a more binding character now that wider recourse will be had to the use of the commitment authorization technique in the general budget of the EC) and
- (iv) if the fiscal policy of the Member States were more closely related to the overall economic desiderata of the Community as a whole.

16. The Commission's comments in Chapter 6 on the co-ordination with other Community policies and with other financial instruments were noted by the Committee on Budgets. This involves a pulling together of the threads which lead to the Social Fund, the EAGGF, the Coal and Steel funds and EIB activities. The Committee on Budgets welcomed the assurance - at paragraph 31 of the report - that the Commission 'has undertaken a rationalization of its internal procedures for the examination of projects and the adoption of decisions.' Paragraph 32 of the report indicates that the present systematic procedure for the consultation of all the Commission departments concerned has the advantages of flexibility and speed and that as a result: 'the average time between the receipt of applications and the date of the Commission decision on them has been no more than about two months.' One must warn, however, that, on occasion, such simplified procedures could lead to the result, referred to at paragraph 10 above, of appropriations being devoted to projects which might lead, in some measure, to the Fund being used as a prop for national budgets and not generating distinctly new projects.

Payments pattern

17. Paragraph 70 of the Commission's report indicates that, of the 299.84 m.u.a committed in 1975, 90.67 m.u.a. (or about 30%) were paid. The Commission's view that this payments outcome was satisfactory is considered reasonable by the Committee on Budgets, in view of the fact that payment claims were not received until the beginning of November 1975.

Control aspects

18. A matter of key interest to the Committee on Budgets is the adequacy of control exercised by the appropriate Community instances over the use of funds. Article 9(2) of the ERDF requires that Member States

'shall take all steps to facilitate such supervision as the Commission may consider useful in managing the Fund, including on-the-spot checks.' At paragraphs 72-75 the Commission outlines the nature and results of the on-the-spot control visits made in 1975 to projects in Ireland, Italy and the United Kingdom. Officials of the Member States co-operated fully with the Commission in connection with these control visits which were preliminary in character and revealed no irregularities.

19. The Audit Board was associated with one of these on-the-spot checks¹ and hopes to organise more extensive autonomous audits in the future.

20. It is most important, in the context of control,

- (i) that three basic criteria be observed i.e.
 - impact on employment;
 - viability; and
 - contribution towards the economic development of the region.
- (ii) that it be confirmed that the project obtained the amount of aid envisaged by the Member State in the application, and
- (iii) that the Community contribution does not lose its distinctive character by being confused with national contributions.

21. The Committee on Budgets is anxious to ensure that this new fund should be carefully controlled to make sure that it does not become open to the irregularities and criticisms which in certain cases affect other Community funds. To this end, it called on its Control sub-Committee to keep a particular watch on the implementing of this part of the budget when preparing the annual discharge report.

¹ Paragraph 47 of the Report of the Audit Board on the financial year 1975.

Publicity

22. The Committee on Budgets considered that the Community taxpayer should be kept fully informed of the use being made of ERDF appropriations. To this end, publication in the Official Journal at half yearly intervals of the lists of projects to benefit from fund aid is essential - as is provided in the Regulation¹. However, greater importance attaches to press information and an intensified effort here would appear to be required. The fact that Member States 'have now agreed in principle to have large hoardings, indicating that the project is partially financed by the Fund, erected at the site of at least the more important projects' is to be welcomed.

Global Requests

23. The use of the possibility of Article 7 (2) in regard to the global presentation, at the beginning of each quarter, by Member States of their requests in respect of investments referred to in Article 4 (1) of the Regulation, though administratively convenient, is inappropriate on several grounds.

The making of global requests could take from clarity and **transparency** in the implementing of the budget. It could make it more difficult for the European Parliament to have access to information on this aspect of the budget. Moreover, it could lead to a dilution of the use made of the resources of the fund with a consequential weakening of its impact.

Conclusions

24. The Committee on Budgets, having examined the first report on the ERDF 1975,

- considered that the role of the Commission in regard to the implementing of the general budget of the Communities should not be diminished in any way when dealing with the Regional Fund;
- considered that the use of global requests by Member States for assistance from the Fund leads to inadequate control over Community expenditure and takes from the clarity of the budget;
- drew attention to the importance that attaches to systematic analysis and review of results which can be carried out in the context of the annual reports;
- called on its Control sub-Committee to pay particular attention to the administration of the Regional Fund, when preparing the annual discharge decision, so as to ensure that possibilities for irregularities are excluded from as early a date as possible.

¹ At the time of preparation of this opinion, this requirement had not been fully complied with; the draftsman received an assurance, however, that steps were being taken by the Commission to ensure that publication took place regularly in future. This delay in publication is regrettable.

25. The Committee on Budgets asks the Committee on Regional Policy, Regional Planning and Transport to include the following points in its motion for a resolution:

'In regard to expenditure control

- observed that the Commission has commenced to operate procedures for checking on the use made of Fund resources, for the purpose of ensuring that the most effective use is made of Community assistance, and asks it to continue to operate such checks, and strengthen them if necessary;
- decided to watch, with particular care, the management of the Regional Fund, in the framework of the annual discharge given to the Commission for the implementing of the budget, so as to ensure that irregularities do not occur.'

ANNEX

Member State	Commitments	Number of Projects	Payments	Distribution on the basis of the percentage fixed at Article 2 of Regulation 724/75		Rate of utilisation
	UA		UA	UA	%	%
Belgium	4,043,957	36	-	4,500,000	1.5	90.6
Denmark	3,877,776	34	1,555,770	3,900,000	1.3	100.3
Germany	9,466,988	64	-	19,200,000	6.4	49.7
France	46,006,288	232	16,125,646	45,000,000	15.-	103.1
Ireland	19,928,478	105	6,995,689	18,000,000	6 (★)	102.8
Italy	123,988,468	174	44,296,054	120,000,000	40.-	103.3
Luxembourg	750,000	1	227,279	300,000	0.1	252.2
Netherlands	5,585,571	3	2,849,313	5,100,000	1.7	110.5
United Kingdom	86,178,004	534	18,618,298	84,000,000	28.-	103.5
Total	299,825,530	1,183	90,668,049	300,000,000	100.-	

(★) Article 2 of regulation 724/75 envisages as well, in favour of Ireland for the period 1975 - 1977, an additional sum of 6 m.u.a. to be deducted from the share of other Member States with the exception of Italy.

Source: Audit Board Report on the financial year 1975, page 67.

