

European Communities

EUROPEAN PARLIAMENT 438

Working Documents

1977 - 1978

11 May 1977

DOCUMENT 84/77

Report

drawn up on behalf of the Committee on Social Affairs, Employment and
Education

on the communication from the Commission of the European Communities to
the Council (Doc. 50/77) concerning the review of the rules governing the tasks
and operations of the European Social Fund

Rapporteur: Mr R. ADAMS

1.2.1

PE 48.478/fin.

By letter of 7 April 1977 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the proposals from the Commission of the European Communities to the Council on its communication on the review of the rules governing the tasks and operations of the European Social Fund.

At the plenary sitting of 18 April 1977 in Strasbourg the President of the European Parliament referred this document to the Committee on Social Affairs, Employment and Education as the committee responsible and to the Committee on Regional Policy, Regional Planning and Transport and the Committee on Budgets for their opinions.

On 31 March 1977 the Committee on Social Affairs, Employment and Education appointed Mr Adams rapporteur.

It discussed this matter at its meeting of 31 March 1977 and considered the draft report at its meeting of 27 April 1977.

At the latter meeting the committee adopted the motion for a resolution and the explanatory statement unanimously with two abstentions.

Present: Mr Van der Gun, chairman; Mr Nolan and Mrs Dunwoody, vice-chairmen; Mr Adams, rapporteur; Mr A. Bertrand, Lady Fisher of Rednal, Mr Müller, Lord Murray of Gravesend, Mr Pisoni, Mr Pistillo, Sir Brandon Rhys Williams, Lord St. Oswald (deputizing for Mr Howell), Mr Vandewiele and Mr Wawrzik.

The opinions of the Committee on Regional Policy, Regional Planning and Transport and the Committee on Budgets are attached.

CONTENTS

	<u>Page</u>
A. MOTION FOR A RESOLUTION	5
B. EXPLANATORY STATEMENT	7
Opinion of the Committee on Regional Policy, Regional Planning and Transport	13
Opinion of the Committee on Budgets	22

The Committee on Social Affairs, Employment and Education hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the communication from the Commission of the European Communities to the Council on the review of the rules governing the tasks and operations of the European Social Fund

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council on the review of the rules governing the tasks and operations of the European Social Fund (COM(77) 90 final),
 - having been consulted by the Council (Doc. 50/77),
 - having regard to the report of the Committee on Social Affairs, Employment and Education and the opinions of the Committee on Regional Policy, Regional Planning and Transport and the Committee on Budgets (Doc. 84/77),
1. Recognizes that, given the conditions at present imposed by the world economy and structural change, it is not possible to rely solely on the market's capacity for remedying its own ills if the current economic and labour market problems are to be overcome;
 2. Welcomes, therefore, the swift reaction of the new Commission in pushing ahead with the reform of the Social Fund with a view to using it to support national employment policies; doubts, however, whether it will be possible in practice to abide by the timetable laid down by the Commission;
 3. Wishes to stress from the outset that the Social Fund can make an effective contribution to our employment policy only if it is developed into a global instrument and the allocation of resources is coordinated with that of the other Community funds;
 4. Urges, as already requested in Mr Caro's report¹, the publication, at both national and Community level, of reports on measures taken by the Fund, based on comparable data and information, which would thus contribute in particular to the planning of a forward-looking social policy;

¹ Report on the Fourth Report on the Activities of the European Social Fund - 1975 (Doc. 578/76).

5. Welcomes the Commission's willingness to give careful consideration to the possibility of increasing the number of staff involved in the administration and supervision of the Social Fund, a step that may prove to be essential, and to simplify procedures so as to make better use of the available potential;
6. Agrees that in certain cases the Social Fund's contribution should be increased from 50% to 65% and also endorses the new proposal to encourage the maintenance of existing jobs and the creation of new jobs by contributing 35% to further measures;
7. Advocates the retention in principle of the division into Article 4 and Article 5 operations and the flexible arrangements for transferring appropriations between the two articles, but stresses that even when the transfer of appropriations is treated from a purely budgetary angle, the social policy aspects must be given priority;
8. Urges that, when Articles 4 and 5 are redrafted as is proposed, the corresponding implementing provisions be worded in such a way as to ensure that socially important projects that have been assisted hitherto are not jeopardized;
9. Agrees that the transfer of a larger part of the planning element to the Commission and the granting of advances towards approved projects may enable the fund to be administered in a coordinated and more dynamic manner; however, the Member States must provide the requisite administrative support;
10. Acknowledges the positive approach reflected in the concept of prior consultation between Parliament and the Council and Commission, but would ask the Commission to define these notions in the document under consideration;
11. Commends the Commission's proposals for improving the procedure of the Social Fund, but points out that they can be effectively implemented only if the Fund is assured of adequate financial resources;
12. Urges, in view of the constantly changing economic and social requirements, that arrangements be made for the Social Fund's operating procedures to be adjusted quickly rather than every few years.
13. Urges further that the Commission should be given its own direct right of intervention at the earliest opportunity by means of a sweeping reform of the structure of the Social Fund.

EXPLANATORY STATEMENTI. General comments on the reform of the European Social Fund

1. Under Article 11 of the Council Decision of 1 February 1971 on the reform of the European Social Fund, the effects of the reforms are to be reviewed after five years; at the same time the Commission of the European Communities is called on to deliver its opinion, by 1 May 1977, on any difficulties which may by then have emerged in the Fund's operation and to submit proposals for functional improvements. The Commission has fulfilled this obligation by submitting a 'Communication to the Council on the review of the rules governing the tasks and operations of the European Social Fund'¹ dated 24 March 1977.

In this document the Commission analyses the operation of the Fund to date and, while maintaining its basic structure, attempts to find possible solutions to the difficulties which have arisen, particularly in connection with the Fund's administration.

These problems include:

- '- the constant danger of dispersal of intervention;
- slow adjustment to the demands of the labour market;
- slowness in the processing of applications and delays in the payment of aid.'

'The solution of the difficulties referred to above is dependent on the achievement of two objectives:

- greater consideration of employment requirements and concentration of intervention on the most pressing Community problems;
- increased effectiveness of the Fund'.²

¹ COM(77) 90 final of 24 March 1977, Doc. 50/77 of 18 April 1977

² Doc. 50/77, p. 3.

2. The Committee on Social Affairs, Employment and Education supports the Commission's aims and feels that to achieve them the possibilities offered by the Fund must be improved from both a qualitative and quantitative point of view, taking into account the administrative and personnel aspects, as well as the resources allocated to the Fund. One of the main reasons for the importance of this reform is that given the conditions at present imposed by the world economy and structural change, it is not possible to rely solely on the market's capacity for remedying its own ills, if the current economic and labour market problems are to be overcome; on the contrary, the difficulties associated with economic development are increased still further when there is a combination of structural, regional and sectoral weaknesses.

The committee therefore agrees on this matter with the Commission, which emphasizes that to enable fuller use to be made of the European Social Fund in the solution of employment problems, it must not in future be confined to merely a few areas of activity. It must rather develop into a global and effective means of bringing about structural changes. With this in mind it is vital that the Regional Fund decided upon by the Paris Summit Conference, the relevant measures financed by the Agricultural Fund, the Investment Bank and the Social Fund should be coordinated under a common policy.

However, to achieve effective coordination and so contribute towards shaping a forward-looking social policy, there must be a significant improvement in the exchange of information on the basis of comparable data. The Committee on Social Affairs, Employment and Education has referred to this matter repeatedly, principally because the different working methods of the national administrations may favourably or adversely influence the effectiveness of the Fund and hence help to maintain or create imbalances.

II. Comments on the principal technical modifications to the operation of the European Social Fund

3. The most important proposals for improvement relate to
- (a) the distribution of aid under Articles 4 and 5 and their regional and sectoral implications,
 - (b) the introduction of different rates of intervention by the Fund on the basis of regional, sectoral and general economic policy factors,
 - (c) a more flexible system of administering the Fund.

Since the purpose of a committee report is not to repeat the contents of the Commission's document, the following paragraphs will merely provide explanatory comments on the above points.

(a) The Commission proposes to maintain the basic division of the Fund into measures under Article 4 - special interventions by the Commission to deal with general employment problems in the Community -, and measures under Article 5 to remedy specific employment problems which do not affect all the Member States to the same degree, i.e. in particular problems which lead to structural unemployment or under-employment in the less developed regions of the Community, and aid to resolve employment problems resulting from technical progress or changed marketing conditions in individual sectors. Although the committee agrees in principle with the Commission's proposal to maintain for the present this political compromise, reached in 1971, it feels that the shift in the balance between Articles 4 and 5, which will be explained below, should not threaten socially important projects which have hitherto been encouraged.

In its communication the Commission proposes to remove the predetermined distribution of the Fund's resources provided for under Article 9(2) of the 1971 Council Decision, which specifies that appropriations for action under Article 5 should account for at least 50% of the annual budget but that in the long term a growing proportion of the budget appropriations should be allocated to action under Article 4. Instead it is proposed that the distribution of the Fund's resources between the two articles should be decided during the adoption of the relevant annual budget. In this connection, it is further urged that greater emphasis should be placed on the regional and sectoral aspects not only of measures taken under Article 5 but also of those under Article 4. The Fund's effectiveness must be considered in the annual report and where it is found to be inadequate, there must be provision for appropriate measures to be taken - either of a technical budgetary nature or in respect of the drawing up of the annual guidelines or of the proposals concerning Article 4 - to ensure that the regional aspect is adequately represented.

In this connection it suffices to recall the areas of the Fund's intervention to which it is proposed to make a number of modifications: aid for the re-integration and training of women over 35 years, the handicapped, migrant workers, youth, employees in the textile industry, persons leaving agriculture and self-employed persons in small, particularly craft, undertakings.

(b) The introduction of intervention rates varying between 50% (the rate applicable hitherto) and 65% for projects in certain Community regions is also an extremely important proposed improvement. The Commission puts forward rates of:

- 65% in special regions characterized by long-term serious imbalances in the development of the labour market or by the decline of one or more vital economic sectors. The Council will determine these regions on a proposal from the Commission;
- 50% in other regions;
- 35% for measures which help to create and maintain jobs and improve working conditions or which - for a limited period - guarantee incomes. These measures should be independent of any region or sector and are likewise for approval by the Council on a proposal from the Commission.

The Committee on Social Affairs, Employment and Education warmly welcomes the fact that in addition to the promotion of vocational training and retraining, which was hitherto the main field of intervention, account is to be taken of the urgent need to create and maintain jobs at Community level and with Community aid. However, it is questionable whether the Social Fund in its proposed form is an adequate instrument for such a policy, unless the available appropriations are vastly increased.

(c) The Commission proposes several modifications to improve the administration of the Fund. Above all it urges the introduction of a preference system in the form of guidelines on the Fund's interventions, drawn up each year but forming a policy basis for three years: this measure is necessitated by the Fund's limited resources. Furthermore, provision is made for more intensive consultation with the Fund Committee during the preparation of the draft budget.

Under 'Applications for assistance and selection of operations' the Commission proposes to simplify the following aspects:

- the prior notification by the Member States of the estimated volume of their applications,
- the content and date of applications for aid and their submission and
- the selection of operations after consulting the Fund Committee.

The Member States are accordingly required to submit by 1 August each year a detailed provisional action programme for the coming financial year.

To enable a decision on the applications to be made as early as possible - preferably as soon as the new budget is adopted (December/January) - the majority of the applications should be submitted in the form of grouped applications by 1 October of the previous year.

By far the most important point in this connection is that as a result of the above two modifications it will be possible to allocate up to around 85% of the appropriations as soon as the budget has been adopted, and to decide on the balance as and when necessary during the financial year. There can be no objection to this proposal in itself, except that attention should be drawn to the danger that the Member States might submit excessive cost estimates thus leading to unnecessary allocations of resources.

As far as possible further measures should be taken to make the system of payment of aid more flexible, for example by granting real aid, i.e. an advance of 30% of the amount agreed should be paid when the project is approved, a further 30% when half the project has been carried out and the final payment made after completion of the project.

A final important technical point is the control of the Fund's effectiveness, for which a simple but efficient procedure should be introduced. It remains to be seen how effective the procedures proposed by the Commission will be.

In any event the committee welcomes the intention to involve the European Parliament in the decision-making process through prior consultations with the Council and Commission.

Conclusion

The Committee on Social Affairs, Employment and Education welcomes the Commission's proposal for improving the utilization and administrative procedures of the European Social Fund. At the same time, however, in view of the constantly changing requirements of economic and social policy, it urges the Commission not to regard these reforms as definitive but to facilitate adaptations to the general operation of the Fund in the short

term as well, i.e. to proceed in the same way as in the establishment of the guidelines, and hence not to restrict the Fund to a multiannual pattern. Moreover, the committee feels that a fundamental structural reform of the ESF is urgently required to enable it to be used as an effective means of combatting unemployment at Community level and to give the Commission a direct right of intervention, above all with regard to the creation of new jobs.

OPINION OF THE COMMITTEE ON REGIONAL POLICY, REGIONAL PLANNING
AND TRANSPORT

Draftsman: Mr G. SCHYNS

On 29 March 1977 the Committee on Regional Policy, Regional Planning and Transport appointed Mr Schyns draftsman.

It considered the draft opinion at its meeting of 26 April 1977 and adopted it unanimously.

Present: Mr Nyborg, acting chairman; Mr McDonald, vice-chairman; Mr Schyns, draftsman; Mr Brugger, Mr Corrie, Mr Delmotte, Mr Ellis, Mr Fuchs, Mr Haase, Mr Hamilton, Mr Herbert, Mr Hoffman, Mrs Kellett-Bowman, Mr Mascagni and Mr Starke.

I. INTRODUCTION

1. The Committee on Regional Policy, Regional Planning and Transport welcomes the fact that the proposals from the Commission of the European Communities on the reform of the European Social Fund not only stress the regional dimension but also meet a number of desiderata repeatedly expressed by the committee responsible for regional policy since it was set up in 1973.

2. The draftsman of the opinion of the Committee on Regional Policy, Regional Planning and Transport regrets, however, that lack of time unfortunately makes a study in depth of the Commission's document impossible and that this extremely important matter can only be discussed at one meeting of the committee concerned.

II. GENERAL CONSIDERATIONS

3. Pursuant to Article 11 of the Council Decision of 1 February 1971 on the reform of the European Social Fund¹, the decision has to be reviewed not later than 5 years after its entry into force and, if necessary, modified in the light of experience gained.

To implement the provisions of this article - and with a view to increasing the effectiveness of the European Social Fund - the Commission has submitted to the Council, in addition to an opinion, two draft regulations and a set of draft decisions.

4. A number of proposals which specifically concern administrative provisions relating to the operation of the European Social Fund or contain provisions which are of little relevance to regional matters, such as, inter alia, those concerning assistance for handicapped persons, are outside the scope of the opinion of the Committee on Regional Policy, Regional Planning and Transport.

The other proposals, however, are directly or indirectly related to the implementation of a Community regional policy, such as, in particular, the proposed measures in favour of migrant workers, persons leaving agriculture, persons occupied in the textile and clothing sectors or those affected by labour market difficulties.

5. The draftsman of the opinion was most gratified to note that the Commission, both in its proposals and the accompanying explanatory memorandum,

¹ OJ No. L 28, 4.2.1971, p.17

has placed greater stress than hitherto on the regional impact of measures in the social sector.

On page 14, point 26, the Commission explicitly states that 'the elimination of regional imbalance will long remain one of the major tasks of the Community'.

This passage provides a very clear illustration of the importance attached in this document to regional problems and shows at the same time that, when formulating its proposals, the Commission is determined to be guided in the future more than ever before by the high degree of interdependence between the common social and regional policies.

6. Your committee has always stressed the obviously close connection between both types of policy and the social reasons underlying a Community regional policy. Thus, the European Parliament, on 5 July 1973, adopted a resolution¹ in which the opinion was expressed that 'the Commission's concept, which is essentially economic, must be widened to reflect a broader view of development taking account of the human factor, since education and vocational training are necessary as well as economic action'.

This more 'social' approach to regional problems, which takes account of living and working conditions in the less favoured regions, has subsequently been stressed time and again by your committee and been developed in greater depth in numerous oral and written questions, resolutions and reports.

III. REMARKS ON SOME IMPORTANT POINTS

7. As mentioned above, the proposed measures meet a number of desiderata expressed on numerous occasions by the committee responsible for regional policy, particularly on the following points:

- coordination of the various Community financial instruments;
- concentration of Community aid;
- assistance to regions where the predominant economic activities are in decline.

Some observations on these specific aspects are made below in the light of the present Commission's proposal:

¹ See the interim report by Mr Delmotte on the Community Regional Policy, Doc. 120/73, paragraph 7, OJ No. 62 of 31.7.1973, p.34

- coordination of the various Community financial instruments:

8. Assuming that the regional policy is a general structural action policy that has to include all sectors and must therefore be a socio-economic and not merely an economic policy, and further assuming the need for an inter-disciplinary approach to the problems of less favoured regions of the Community, it is quite logical that your committee should have stressed from the very beginning the need for the greatest possible coordination of the various Community financial instruments.

9. The need for greater coordination of the different financial instruments at the disposal of the European Community, namely the European Regional Development Fund (ERDF), the European Social Fund, the EAGGF (Guidance Section), the European Investment Bank and the ECSC Fund, was again quite explicitly stressed recently in the report on aspects of the Communities' regional policy to be developed in the future (Doc. 35/77). In paragraph 14 of the resolution the rapporteur for the Committee on Regional Policy, Regional Planning and Transport states:

'(The European Parliament) once more stresses the need for the Fund, proceeding in close cooperation with the other Community instruments, to provide aid for social, education and vocational training infra-structures, which represents a heavy burden for some Member States given their high costs and the absence of any immediate profit'.

10. The Committee on Social Affairs, Employment and Education has also pronounced in favour of greater coordination. In his resolution on the Fourth Report on the Activities of the European Social Fund - 1975 (Doc. 578/76), Mr Caro, on behalf of the committee, states in paragraph 8 'that the Social Fund's resources will gain in practical significance if their utilization is coordinated with those of the other Community Funds'.

11. That the Commission not only subscribes to the views of the European Parliament on this matter but has also taken concrete action in the desired direction may be deduced both from the setting up of a special task force - a sort of inter-departmental working party on improving coordination between the various financial instruments - and from the specific task of co-ordination assigned to the new Commissioner responsible for regional policy, Mr Giolitti.

12. The new approach by the Commission of the European Communities, initiated last year by the former Commissioner in charge of Regional Policy, Lord Thomson, finds concrete expression for the first time in specific proposals to the Council. Thus, Article 3(2) of the draft regulation amending

Regulation (EEC) No. 2396/71 of the Council of 8 November 1971 implementing the Council decision of 1 February 1971 on the reform of the European Social Fund contains the following characteristic passage (see Annex II):

'In granting the aids ... priority shall be given to operations which are co-financed by several Community instruments'.

13. Such coordination can best be established through 'regional development programmes'. These development programmes, which have to be drawn up for each region of the Community and include all forms of sectoral policy (including social, financial, fiscal and transport policies), have been further analysed by Mr Delmotte in his report on behalf of the Committee on Regional Policy, Regional Planning and Transport on the First Annual Report (1975) of the Commission of the European Communities on the European Regional Development Fund (Doc. 440/76)¹.

14. The draftsman of the opinion would, however, point out that, while the various financial instruments should not operate independently of one another, a proper distinction needs to be made between them. He considers that the specific character of each of the funds should be safeguarded and warns against any form of coordination which could jeopardize the specific vocation of each of the funds. However close the connection between the social and regional policies may be, there nevertheless remain differences of emphasis which naturally it has to be possible to express when it comes to granting financial assistance. Certain typical achievements in the field of social welfare - for example, assistance to handicapped persons - must not be lost for the sake of coordination.

- concentration of Community aid

15. The concentration of financial assistance also constitutes one of the principles which the European Parliament believes must underlie an effective Community regional policy.

Your committee has always argued in favour of a far-going concentration of the financial resources of the ERDF and has always opposed any geographical dispersion of the already too meagre credits. Notably in its resolution of 13 December 1973 on the proposal for a regulation on the list of regions and areas to be eligible for assistance from the ERDF², it came out firmly against the tendency to spread the aid over too large a number of regions and projects.

¹ For more detailed information see points 35 to 37 inclusive of the explanatory statement

² Report Doc. 267/73, OJ No. C 2, 9.2.1974, p.49

16. Unfortunately, the Council Regulation of 18 March 1975 establishing an ERDF¹ introduced the so-called quota system. It is quite clear that allocating the Fund's credits to the various Member countries according to a fixed scale runs counter to the principle of the concentration of aid and, to a certain extent, amounts to applying the 'fair-returns' principle, which was also rejected from the very beginning.

17. In his report on aspects of the Community's Regional Policy to be developed in the future (Doc. 35/77), Mr Delmotte again enumerated the criteria regions should meet in order to be eligible for support from the Fund, the decisive factors being, inter alia, the per capita GDP of the region, the percentage of the working population engaged in agriculture, average structural unemployment, net emigration from the region, chronic structural imbalance and the aid capacity of the Member States.

18. The Committee on Regional Policy, Regional Planning and Transport welcomes the fact that the Commission explicitly states in point 49 of its explanatory memorandum that 'the Decision 71/66/EEC should allow the Council, on a proposal from the Commission, to determine the regions eligible for increased aid'. It has not ceased, since the establishment of the ERDF, to urge the Commission to apply the criteria it established itself in 1973 with a view to drawing up a list of regions eligible for aid from the Fund. Such a procedure would have the enormous advantage that Community criteria would replace national yardsticks.

19. The Council Decision of 1 February 1971 on the reform of the European Social Fund² provided for aid under the Fund to be apportioned as follows:

- (a) Article 4 provides for Community aid if the situation of the labour market is disturbed by Community measures or schemes, or for the purpose of adjusting supply and demand on the labour market. The granting of aid has to be based on a specific decision by the Council, on a proposal from the Commission;
- (b) Article 5 provides for Community aid to eliminate structural unemployment and chronic underemployment. A formal decision by the Council is not required.

The Commission remarks in its explanatory memorandum (point 22) that 'note should be taken of the importance of action taken by the Fund to eliminate structural regional unemployment and underemployment pursuant to

¹ OJ No. L 73, 21.3.1975, p.1

² OJ No. L 28, 4.2.1971, p.28

Article 5 ..., and of action concentrated in regions with the greatest economic imbalances. Thus, since the creation of the European Development Fund, the Social Fund has been constantly supporting Community Regional Policy in the employment field'.

20. The Commission, with a view to greater concentration of aid, now proposes:

- (a) to stress the regional aspects of the projects financed pursuant to Article 4 of the Decision of 1971 or, in other words, to devote a large part of the available credits to projects in the least favoured regions;
- (b) to raise from 50 to 65% the aid provided under Article 5 of the ESF in regions suffering from particularly serious and chronic unemployment or the decline of one or more vital economic activities.

21. The Commission adds that the level of the regional commitment may in no case be lower than that achieved up to the present and will further review this commitment of aid from the Fund in each annual report on the activities of the ESF.

22. The Committee on Regional Policy, Regional Planning and Transport can naturally give its full approval to the proposed amendments, which are aimed at strengthening assistance to the regions.

- assistance to regions where the principal economic activities are in decline

23. In the proposals from the Commission of the European Communities systematic reference is made to the areas offering from a decline in one or more of their vital economic sectors. It is proposed that special attention be paid to regions characterized by industrial decline and that supportive measures be taken to stimulate economic activity.

24. So at this level too, the draft regulations and draft decisions are clearly in line with the requests repeatedly made in the past to the Commission by the European Parliament.

During its fact-finding mission to Scotland and North-West England in September 1976, a delegation from the Committee on Regional Policy, Regional Planning and Transport was able to gain a first-hand impression of how unfavourably working and living conditions in a region characterized by industrial decline compare with those with an average industrial and economic level¹. Not only do these regions have to grapple with difficult problems of conversion and re-training, with out-of-date and inadequate infrastructure facilities - particularly as regard housing - which eventually greatly weaken economic potential, but they also face all manner of serious

¹ See the report by Mr EVANS on this fact-finding mission (PE 48.483)

social evils arising from economic decline, such as, in particular, a persistently high level of unemployment, a high emigration rate and, in the region visited, an alarming increase in alcoholism and crime.

25. Last year, the Council adopted a decision (76/206/EEC) to aid persons occupied in the textile and clothing industry¹. Since the employment situation in the sectors concerned shows no sign of improving and the large number of jobs lost each year does not appear likely to drop, it is now proposed (see Annex 5) to extend the period of validity of the decision, which would otherwise expire on 31 December 1977.

26. Your committee naturally approves this proposal. Nevertheless, it wishes to point out the desirability of extending assistance to a number of other sectors where the structural difficulties and their social implications are likely to be just as serious, if not worse. This is of particular relevance to the iron and steel industry, mining and shipbuilding.

The ever widening gulf between the various regions of the Community could perhaps be bridged to some extent by energetic measures in favour of industrial problem areas. Advantage should therefore be taken as soon as possible of the possibility of opening up new fields of intervention pursuant to Article 4 of the Council decision on the reform of the ESF, with a view to the granting of assistance (see paragraph 9 of the explanatory statement).

IV. CONCLUSIONS

27. The Committee on Regional Policy, Regional Planning and Transport expresses its satisfaction that the proposals from the Commission to improve the operations of the European Social Fund are confirmative of a more interdisciplinary approach by that body to the Community's socio-economic problems.

The communication to the Council and the proposals themselves show that the Commission is attempting to associate social and regional measures more closely than ever before and that it also aims to bring about greater co-ordination of the various financial instruments and greater concentration of Community aid. It is proposed to strengthen Community actions in favour of regions characterized by a persistent decline in their principal economic activities.

¹ OJ No. L 39, 14.2.1976

28. Since the proposed modifications meet some of the oft-repeated desiderata of your committee and will undoubtedly increase the effectiveness of Community assistance and regional policy endeavours, the Committee on Regional Policy, Regional Planning and Transport does not feel it necessary to propose to the Committee on Social Affairs, Employment and Education any amendments to the draft regulations and draft decisions.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr J-M. CARO

On 27 April 1977 the Committee on Budgets appointed Mr CARO draftsman.

It considered the draft opinion at its meeting of 27 April 1977 and adopted it unanimously.

Present: Mr Lange, chairman; Mr Caro, draftsman: Lord Bruce of Donington, Mr Früh, Mr Hamilton, Mr Maigaard, Mr Mascagni, Mr Notenboom, Mr Radoux, Mr Ripamonti, Mr Schreiber, Mr Spinelli and Mr Yeats.

Introduction

1. The Commission is presenting proposals for the review of the European Social Fund in the light of Article 11 of the Council Decision of 1 February 1971, which stated that the Council would review its decision not later than five years after its entry into force and if necessary amend it on the basis of a further Opinion from the Commission, based on Article 126 of the Treaty.

2. It will be recalled that the Treaty itself sets out the aims for the European Social Fund and the provisions governing it. It indicates (Article 124) that the Commission shall be assisted in the task of administering the Fund by a committee presided over by a Member of the Commission and composed of representatives of governments, trades union and employers' organisations. It also indicates a degree of participation in expenditure by the Fund (Article 125). It states conditions for assistance grants. It lays down rules governing changes to the Fund which permit derogations from Article 125 and which determine what new tasks may be entrusted to the Fund. It is clear therefore, that the Commission's hands are not entirely free in making proposals for the reform of the Fund, and that there are certain Treaty provisions which have to be respected.

3. Article 123 establishes important goals for the Fund :
'To improve employment opportunities for workers in the Common Market and to contribute thereby to raising the standard of living'.
In view of the fact that unemployment within the Community is currently over 6 million and that its regional disparities remain so glaring, the effectiveness of the Fund has become a matter of great political importance.

The operation of the new ESF (European Social Fund)

4. As the Commission points out, the size of the European Social Fund and its scale of operations have been considerably extended since 1973. The amount voted in the Budget for 1973 totalled 235 mua, for 1977, 617 mua. However, as the Commission points out, this last figure includes commitment authorisations for the second and third years of multi-annual operations - payment appropriations amount to less than 200 mua for the 1977 financial year.

It should also be recalled that growth in appropriations has been achieved largely as a result of pressure from the European Parliament which has consistently voted a considerable part of its margin for increase of non-compulsory expenditure to the Social Fund. Despite the growth in activities, appropriations are in no way sufficient to cover the volume of claims which has risen to avalanche proportions. Since the 1976 financial year, claims have exceeded appropriations by a ratio of 2 : 1. There is no indication that the volume of claims will begin to fall off : on the contrary, in the current economic climate, further increases are to be envisaged.

5. The inadequacy of appropriations voted has been exacerbated by the provisions of Article 9 of the Fund, which indicate that a balance must be struck between expenditure arising from Article 4 and that arising from Article 5 of the Fund. It will be remembered that Article 4 lays down that the Fund can intervene in particular areas opened by specific decisions of the Council, either where the employment situation is affected or in danger of being affected by measures adopted in the Community framework or to support joint action to improve the balance between the supply and demand for labour within the Community. Article 5 does not involve further decision by the Council and allows that the Fund may intervene when the employment situation is affected by difficulties in certain regions or in certain branches of the economy or in certain groups of undertakings. Fund assistance is granted in such cases to reduce unemployment of a long-term structural nature. ¹

6. In view of the difficulty encountered in obtaining Council decisions on specific areas, there has been a consistent under-utilisation of appropriations voted. This under-utilisation has resulted in appropriations being 'lost' from the Budget despite the urgent need for extra appropriations for activities covered by Article 5. Both Mr Dalyell and Mr Yeats in their Opinions for the Committee on Budgets on the activities of the Social Fund in 1974 and 1975, commented on this. ²

¹ See page 1 - broad guidelines - of the Commission's document

² PE 42.659 and PE 47.473

The result of the difficulties encountered over Article 4 has been a relatively minor increase in appropriations over time, large scale carry-forwards and 'losses' of appropriations. It was partly to avoid this phenomenon that the Commission introduced proposals during the 1976 and 1977 budgetary procedures for extending the notion of commitment authorisations to the Social Fund. ¹

These proposals were accepted for 1977 but it is clear that in themselves they do not remove the source of a problem which is institutional and which results from Council's failure to take specific decisions on activities for the Fund. This has hampered effectiveness, and in at least one instance, led to an infringement of Parliament's budgetary powers.

7. For the 1976 financial year the Commission has proposed and the Budgetary Authority agreed to, the insertion of a new Article, 504, in the Budget for 'aid to regions and sectors affected by the crisis'. This line had 28.5 m.u.a. allocated to it.

Council did not arrive at an agreement on anti-crisis measures, even though the sums involved were relatively small and the Commission transferred the appropriations voted, apparently with Council assent, to other Articles in Chapter 50. Parliament, partner in the Budgetary Authority, was not even consulted.

8. The Commission indicates that the record of the Fund has been hindered by problems with its administration, in particular it mentions ² the following difficulties :

- the constant danger of dispersal of intervention ;
- slow adjustment to the demands of the labour market ;
- slowness in the processing of applications and delays in the payment of aid.

All of these problems have been underlined in the recent Opinions of the Committee on Budgets on the annual reports for the Fund, mentioned above. To this should be added that there exists a concern about the 'quality' of some of the projects supported - a concern which was underlined by the previous Commissioner with budgetary responsibilities.

¹ Doc. 471/76

² Page 3 of the Commission's document

9. Other particular problems have been raised by the Commission in its review. The distinction between public administrations, public law bodies and joint social institutions, on the one hand, and private law bodies on the other, has given rise to problems of demarcation of responsibilities of the public authorities and promoters of the operations.¹ The Commission is clearly worried at the weakness of the regional impact of the Fund. It is also convinced of the need for greater flexibility so that the Fund may be permitted to take action in new areas. Finally, the Commission wishes to improve collaboration between itself and the Fund Committee.

The Commission's proposed amendments

10. In order to counteract the problems mentioned above the Commission has introduced a series of proposals for amendments to previous Council decisions and in particular to the Decision of 1 February 1971 on the reform of the Social Fund. (1 February 1971 - 71/66/EEC). These proposals are contained in the annexes to the Commission's document.

The Commission proposes :

(i) in order to avoid difficulties of demarcation between public law bodies and private law bodies, that only public authorities which present themselves as financially responsible for operations should be considered as promoters and that only their contribution plus the amount requested from the Fund should serve as the basis for calculating Fund intervention (Annex 1) ;

(ii) in order to further concentrate intervention on employment problems in regions with 'weak financial capacity' a new high rate of intervention of 65% for these regions should be permitted. Furthermore, a new lower rate of 35% should be foreseen for aids intended to improve working conditions and to create and maintain jobs, (Annex 1) ;

(iii) in order to circumvent certain difficulties which have arisen as to the distinction between Articles 4 and 5, to delete part of Article 9 of Decision 71/66/EEC relating to a predetermined balance (Annex 1) ;

(iv) to increase the flexibility of the Fund by leaving open the possibility of further amendment to the Decision of 1 February 1971 and of entrusting the Fund with new tasks (Annex 1) .

¹ See Annex 1 of the Commission's review

(v) in order to intensify the effort made to support career prospects for women and to open up further kinds of aid for the handicapped as well as improving the procedures for the granting and payment of Fund assistance, to amend Regulation No. 2396/71 of 8 November 1971. (Annex 2)

11. The Commission also proposes improvements to the administrative and financial procedures for processing Fund applications and the payment of actual advances (Annex 3), clarifying lists of aid (Annex 4), extension of the decision on intervention in favour of persons occupied in the textile and clothing sector (Annex 5), in view of the continuing problems afflicting this sector, strengthening of the measures in favour of migrant workers and prolongation of existing provisions (Annex 6), improvement and simplification of procedures for granting aid to the handicapped (Annex 7), extension of proposals on action for persons affected by employment difficulties (Annex 8) and prolongation of deadlines for application of Council decisions for the four sectors mentioned above (Annex 9).

12. The Commission also proposes strengthening its own guidelines on interventions for the Fund, involving periodic reviews of these guidelines. It plans to associate the Fund Committee with the making of proposals for the Social Fund at the time of the drawing up of the preliminary draft budget. Measures are suggested to improve the control of effectiveness of the Fund by the means of submission of reports to the Fund Committee which will include commentaries on the quality of training.

Commentaries of the Committee on Budgets

13. It is not apparent that the proposals made by the Commission in the context of its review of the ESF will be sufficient to overcome some of the problems and difficulties that have arisen during the five years of experience that have been accumulated. The Commission does not seem to have seized upon this occasion to conduct a fundamental examination of the effectiveness of the Fund in carrying out the tasks assigned to it by the Treaty. Nor is there any mention in the review of the dovetailing of the work of the Fund with that of other funds, despite the hopes that had been raised with the appointment of a Commissioner with responsibility for coordination of those funds. Your draftsman considers this all the more regrettable in view of the seriousness of the unemployment crisis at present affecting the Member States.

14. At no stage of the review is there any mention of the sums that will be required to improve the Community's effectiveness in the field of social policy. Nor is there any discussion of alternative means of financing: in particular, and in contrast to the dialogue taking place on regional policy, no mention is made of the possibility of mobilising the Community's potential in the capital market to finance investment which could protect employment. It is clear that if the Community limits its efforts to the relatively small budgetary contribution agreed so far (and small as an overall percentage of the Budget), then Community social policy will remain a potentially useful but peripheral aspect of the efforts made to counteract unemployment.

15. The Commission has only partially tackled the dilemma posed by the distinction between Articles 4 and 5. It refers at the beginning of its paper to the political compromise which was at the source of this distinction; a compromise between 'national' and 'Community' efforts. It does not propose to call this compromise into question. This is to be regretted since even with the drawing of the artificial distinction between expenditure under Article 4 and that for Article 5, the problem of limiting intervention to areas agreed upon by the Council is not solved and is likely to continue to act as a brake on further strengthening the activities of the Fund.¹ Moreover this distinction undermines the budgetary powers of the European Parliament, one of the joint budgetary authorities.

Nevertheless, the Commission suggests abandoning the attempt to reach a budgetary balance between these two articles - a suggestion which the Committee on Budgets might welcome.

16. Although the Commission can be reproached for failing to give any idea of its own estimates for the Social Fund, its reiteration that appropriations should be decided exclusively by the budgetary procedure is to be welcomed. Furthermore, a greater flexibility, both as to the area of activities of the Fund and the rates of intervention is to be welcomed.

Finally, the possibility of granting advances for projects will speed up procedures in line with the wishes of the Committee on Budgets.

17. As regards the Fund Committee and the strengthening of its role in budgetary preconsultations and Fund management, the Committee on Budgets can only express its deepest concern. In the view of the Committee on Budgets the existence of organisms such as the Fund Committee can be interpreted as contrary to Article 205 of the Treaty, which conferred on the Commission the task of implementation of the Budget 'on its own responsibility'. Whilst aware that the Fund Committee was envisaged by the Treaty itself, there does seem a danger that the task of administering the Fund is no longer being exclusively undertaken by the Commission. The notion of the assistance envisaged for the Commission by a committee seems to have been unduly extended.

¹ This is furthermore in line with the point of view expressed by Mr Vredeling, the Commission Member responsible, in the European Parliament's plenary sitting of 22 April 1977 during the debate on the annual report of the Social Fund.

These observations lead the Committee on Budgets to request that the Commission should submit in good time for the 1978 budgetary procedure its principal conclusions on the following matter: in view of the difficulties which have arisen in administering the Community Funds and in assessing the efficacy of these Funds, would it be better for the Community to depart from the basic conception of structural funds and replace it by the following procedure: first of all, draw up a policy based on a draft programme submitted by the Commission and then let the budgetary authority decide on the appropriations to be allocated to finance this programme within the framework of its consideration of the general budget.

Conclusions

18. Therefore, the Committee on Budgets

(i) believes that the present Commission proposals are not sufficiently radical to enable the European Social Fund to overcome the difficulties that it has encountered and, especially, to enable it to play a constructive role in confronting the crisis in unemployment in the Community;

emphasizes that tackling unemployment has become the Community's main priority and that the moment has come to give practical effect to the Community's efforts in this sphere;

(ii) deplores the failure of the Commission to provide some estimate of the financial needs of the Social Fund in its next stage of development;

(iii) regrets that the Commission does not seem to have sufficiently taken into account the needs of coordination between the various funds;

(iv) considers, while welcoming the Commission's proposal to abandon the artificial budgetary distinction between Chapters 50 and 51 (Articles 4 and 5 of the decision of February 1971), that keeping this distinction between activities decided on the basis of specific Council decision and activities resulting from Community procedures will cause budgetary difficulties hindering the proper management of the Social Fund;

(v) welcomes the Commission's reiteration that appropriations for the European Social Fund should be decided exclusively by the budget procedure, and welcomes the greater flexibility in rates of intervention and in activities to be pursued, as this should enable the Fund to have a bigger impact in combating unemployment in certain regions; also welcomes the possibility afforded the Commission of granting advances so as to accelerate procedures;

(vi) would oppose any extension of the role of the European Social Fund Committee which should, according to the Treaty, remain purely advisory;

(vii) believes that an effective social policy requires the backing not merely of payments from the Community budget but also of mobilization of the Community's capital resources.

(viii) requests, therefore, that the Commission should submit its conclusions in good time for the 1978 financial year so that the budgetary authority may decide on the desirability of replacing the structural funds by the normal legislative and budgetary procedure.

19. The Committee on Budgets requests the Committee on Social Affairs, Employment and Education, as the committee responsible, to adopt the conclusions of this opinion and to incorporate them in the resolution it submits to Parliament.

Should it fail to do so, the Committee on Budgets requests the Committee on Social Affairs, Employment and Education to state, in accordance with Rule 44 of the Rules of Procedure, its reasons for not following the Committee on Budget's opinion.

If its work programme does not allow the Committee on Social Affairs, Employment and Education to consider the opinion of the Committee on Budgets before the debate in Parliament, the Committee on Budgets will instruct its draftsman to submit the conclusions of this opinion to the House in the form of amendments.