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**Report and proposals
on ways of increasing the effectiveness
of the Community's structural Funds**

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Introduction

1. The persistence of structural imbalances within the Community, the obsolescence of the industrial fabric, trends in agriculture and the development of Community policies make it more necessary than ever for the Community to take structural action through its Funds.

It was for this reason that the Commission, through its President, speaking before Parliament in February, proposed that expenditure under the structural Funds should be doubled in real terms, with this objective being linked to the achievement of the reforms proposed and thus to an increase in the effectiveness of the Funds in serving the purposes of the Community.¹

More recently, as part of the 'broad action to ensure the relaunch of the European Community' which it decided to undertake, the European Council in Stuttgart, similarly anxious to improve the effectiveness of the Funds, asked the Commission to present a report with proposals.²

Before describing the approach adopted by the Commission, a brief outline will be given of the Funds together with their financial and technical characteristics.

Presentation of the structural Funds³

2. Two structural Funds were set up by the EEC Treaty:

(i) the *European Agricultural Guidance and Guarantee Fund (EAGGF), Guidance Section*, provided for in Article 40 in order to attain the objectives of the common agricultural policy, primarily increased productivity through rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;

(ii) the *European Social Fund* set up under Article 123 'in order to improve employment opportunities for workers in the common market and to contribute thereby to raising the standard of living ...'

3. A third structural Fund was added to this armoury in 1975, i.e. 17 years after the establishment of the Community. This was the *Regional Development Fund*, whose purpose was 'to

correct the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural underemployment'.⁴

4. The Community has other financial instruments for structural purposes in addition to the structural Funds referred to in the Stuttgart declaration. These are:

(i) the *European Investment Bank*, which was established under Article 129 of the EEC Treaty and whose task under Article 130 is 'to contribute ... to the balanced and steady development of the common market ...' by granting loans which facilitate the financing of projects, primarily those 'for developing less-developed regions';⁵

(ii) a set of instruments provided for by the ECSC Treaty: *industrial loans* (Article 54), *aid for the retraining of workers* (Article 56) and *subsidized loans* for the conversion of undertakings (Article 56).

Financial resources and their growth⁶

5. Considered as a whole, the growth of the financial resources made available by the Community's structural instruments is impressive. The amount of grants and loans has increased twelvefold in nominal terms and fourfold in real terms during the last 10 years.

However, it must be remembered that Community structural action is relatively recent: it was only from 1975 onwards that the resources made available took on significant proportions.

¹ Programme of the Commission for 1983-84; see also Bull. EC 2-1983, point 2.4.11.

² Bull. EC 6-1983, points 1.5.3. and 1.5.5.

³ A more detailed description of each of the Community's structural Funds is annexed to this report.

⁴ Article 1 of Council Regulation (EEC) No 724/75 of 18 March 1975: OJ L 73, 21.3.1975; OJ L 111, 30.4.1975.

⁵ This was later supplemented by the implementation of the borrowing and lending provisions laid down in the Euratom Treaty and by the NCI and, as from 1979, by the interest subsidies granted to the least-prosperous countries under the EMS.

⁶ The annexed tables give a breakdown by recipient country of the commitments and payments made by each of the Community's financial instruments (EAGGF Guidance Section, Social Fund, Regional Fund and, since 1979, EMS interest subsidies) from 1974 to 1982.

Growth of financing for structural purposes

(million ECU)

Year	Grants ¹	Year	Loans ²
1973	351.3	1968-72 (annual average)	324.7
1975	827.5	1973-77 (annual average)	966.6
1977	1 197.5	1980	2 950.8
1980	2 765.3	1982	4 244.2
1982	4 235.6		

¹ (EAGGF Guidance Section, Social Fund, ERDF), commitments.

² Loans from EIB own resources within the Community and NCI loans as from 1979 (loans signed).

6. Parallel to the increase in resources, there has been a very distinct concentration on the least-favoured countries and regions: the proportion of grants received by the least-prosperous countries (Italy, Ireland, the United Kingdom and Greece) rose from 40% to 70% between 1974 and 1982, while these countries also received 75% of EIB loans between 1958 and 1982.

Thus, even though modest (the total amount of Community structural financing is equivalent to around 0.3% of Community GDP), the resources made available are significant where they are concentrated on precise targets. For example, Community assistance (grants and loans) to some of the least-favoured regions have in recent years reached significant levels and intensity, whether in terms of income (from 2 to 4% of *per capita* GDP) or in terms of investment (9 to 14% of gross fixed capital formation).¹

Characteristics of the Community's structural Funds

7. Before assessing the effectiveness of the Community's structural funds, attention must be drawn to the following facts:

(i) Assistance from the Funds is closely linked to national measures and policies and in financial terms represents only a small proportion of these.² It is therefore subsidiary.

(ii) The degree of conditionality of Community measures (i.e. the Community's scope for ensuring that the objectives which it has set are complied with and for thus making its assistance subject to its own considerations of effectiveness)

is restricted or neutralized by a number of factors: the low degree of autonomy in decision-making which the Commission is allowed; the difficulty of adapting a measure to the specific features of certain situations; and the relationship between Community and national expenditure (financial volume and rate of aid).

(iii) There are appreciable differences between the Funds (legal bases, specific objectives, scope, links with Community policies, operating characteristics and rules).

(iv) There is considerable diversity in the measures and types of aid (productive investment, infrastructure categories, wages, incomes, cost of vocational training, intangible investments) provided by the Funds.

8. The effectiveness of Community structural action, which is the key element in the examination requested by the European Council, may be assessed at two different levels:

(i) the first level is the effectiveness of the structural Funds from a Community point of view, i.e. the *value added by Community action to national measures* in pursuing objectives set by the Community;

¹ See annexed Table 10, which shows the impact of Community structural financing in a number of less-favoured regions.

² By way of indication, Community assistance is equivalent to the following proportions of national public expenditure in the relevant fields: EAGGF Guidance Section 6.5% (in 1977); ERDF quota section (productive investment) 4 to 6%; ESF (vocational training) 10 to 12%.

(ii) the second level is effectiveness in the management of the Funds, including that which can be achieved through their close *coordination*.

These two approaches must be pursued simultaneously, and proposals for improvements will be presented in each case.

The Commission attaches the greatest importance to the first level of effectiveness. It is here that the shortcomings are greatest. They cannot be remedied without substantial changes in the existing framework.

With regard to the second level of effectiveness, the Commission is particularly anxious to achieve all the improvements that are possible. However, it notes that the very mechanisms governing the Funds (largely automatic decisions on the basis of projects which the Member States present and which they are responsible for drawing up, monitoring and justifying) limit the possible scope for any major improvement in effectiveness from a strict management angle.

Enhancing the effectiveness of the structural Funds in the interests of the development of the Community

9. If the structural Funds are to be effective tools in the development of the Community, it is not enough that they should be adequately financed.

There are a number of political and institutional conditions which must also be met. Most of these conditions are not met now. We cannot talk of effectiveness of Community action so long as the Community's discretion in the use of the structural Funds is so tightly restricted.

If the effectiveness of Community action is to be enhanced, the following principles must be recognized:

(i) the structural Funds must first and foremost be *tools of development and structural adaptation*, rather than financial redistribution mechanisms;

(ii) the structural Funds must act in support of *objectives defined by the Community itself*: those laid down in the Treaty and the Funds' basic regulations, those which are today imposed on

the Community by the economic crisis, and those which derive from the development of its other policies;

(iii) any automatic intervention by the structural Funds reduces the Community's role to merely checking that the requirements are in fact met, and must therefore be ruled out.

General conditions for effectiveness in the Community interest

10. The first condition of the effectiveness in the Community interest of the structural Funds is the conditionality of assistance from them. This conditionality is in the Commission's view one of the essential points in this report.

Simply checking that a project is in line with the aims of the basic regulations, and meets the criteria they lay down, is not sufficient.

As a general rule there must be a dialogue between the Commission and the Member State concerned in order to dovetail the Community priorities and the national priorities so that joint action can be taken.

The Commission, which has the responsibility of advancing the Community interest, must be able to take part in decision-making in order to establish that a measure is in line with the Community's specific objectives and does promise the necessary degree of effectiveness.

If this twofold evaluation is to be possible, the Community assistance must be provided in the form of programme financing whenever the measures in question so permit. It is at this level, rather than in individual projects, that a convergence between Community priorities and national priorities can best be achieved, and joint action can best be organized, either in the form of programme contracts concluded between the Community and the relevant Member State or in the form of common strategies; the essential point is that the Member States must accept the Community as a partner in structural initiatives.

11. This first condition for effective Community action implies a second one, which relates to the specifically Community character of the objectives the structural Funds are required to pursue.

If the structural Funds were assigned no other function than that of participating in the financing

of national policies, their own impact would be reduced to that of a redistribution mechanism, and it would be impossible to distinguish any special contribution made by Community action.

But the purpose of Fund assistance is to serve aims spelt out by the Community itself.

12. The third condition of the effectiveness of Community structural Fund action is that it must be concentrated on well-defined targets, in order to avoid resources being scattered too thinly over too wide an area of action.

This concentration can be divided into three kinds, which may be combined:

(i) *geographical concentration* on certain regions whose difficulties (in employment, underdevelopment, restructuring, etc.) are the most acute in terms of the specific objectives of each Fund;

(ii) *concentration of targets*, on the basis of priorities adopted by the Community; these priorities must be defined so as to strengthen the links between the pursuit of the basic objectives of the structural Funds, as laid down by the Treaties, and those of other Community policies which overlap with the Funds' fields of operation;

(iii) *concentration of financial resources*, in particular by raising the Community Funds' rates of participation in cofinancing projects with the Member States where these rates are currently too low for Community action to have a significant impact.

The right combination of these various forms of concentration will permit of an appreciable improvement in effectiveness.

Application to the three structural Funds

13. The Community's three structural Funds have their own specific objectives, rules of operation and links with Community and national policies. These specific features must be preserved. None the less, the proposals below represent the application to each of the Funds of the general principles set out above.

If adopted by the Council, they would enable the three Funds, applying the same kind of conditionality, to work together and to undertake in tandem integrated development or conversion operations more easily and more effectively than is the case at present.

EAGGF Guidance

14. There are many positive features in the way the EAGGF Guidance Section operates: obvious link with a common policy, conditionality well established by the regulations and directives applicable to it.

The Commission notes however that, within the limit of the funds available, the conditions for ensuring efficiency, which are met in the EAGGF Guidance Section, cannot yield their full effect. The Section's tasks have in fact grown in number as time has gone on. In addition to the conventional 'horizontal' schemes, a wide range of regionalized operations of differing nature were started up from the end of the 1970s onwards. The funds available have not kept pace with the diversification of tasks, and this has forced the authorities to insert into the regulations a considerable number of technical limits which are not necessarily compatible with the objectives pursued;¹ the results has been that the money has had to be spread out too thinly over too wide an area.²

15. The Commission proposes, therefore, that the action of the EAGGF be more closely focused on a number of priority tasks, so as to avoid spreading resources too thinly:

(i) the promotion of *modernization* and *conversion* projects in farming;

(ii) the *processing* and *marketing* of agricultural products, these being two measures to which greater importance must be attached;

(iii) the *preservation* and *improved use* of non-productive rural areas (e.g. expansion of forestry);

(iv) an *improvement in agricultural income* in the less-favoured regions.

This concentration is particularly important as the EAGGF now stands at a crossroads. The adjust-

¹ A typical example is that of the limitation of the areas to which the vineyard conversion programme or reforestation measures can apply.

² As the implementation of the hill-farming directives accounted for 47% of the commitment appropriations authorized for 1983 for measures to assist the less-favoured areas (Chapter 32), the rest (25% of all EAGGF Guidance appropriations) has to be spread over 24 regional programmes ranging from forestry or irrigation work to the integrated development programme for particular rural regions, and including the programmes to encourage farmers to convert out of surplus products.

ments to the CAP will engender a need for intensified but more selective efforts under the 'horizontal' EAGGF operations.

16. At the same time, with some regions lagging even further behind the rest because of general economic trends, and given the need to rationalize policy concerning prices and markets, schemes are now needed even more than before for these regions, for many of which farming is a major source of income.

To be fully effective, such specific EAGGF Guidance intervention must be dovetailed into a more comprehensive regional development framework alongside, but coordinated with, the other Funds. This basic approach has guided the Commission in its preparation of the integrated Mediterranean programmes.¹

Under the circumstances, it is clear that the concentration of the tasks assigned to the EAGGF Guidance Section must be accompanied by an increase in the funds available to it, whether this be for the purposes of the Mediterranean programmes already proposed or for some other purpose.

This increase must take place as part of a transfer of financing for purely national policies to the Community policies that will flow from, among other things, the decisions on the adjustments to the CAP.²

For it is essential that the Community policies which determine the pattern of production through price-fixing, guarantee thresholds and market organizations are matched by Community solidarity in the provision of the resources needed to make a success of agricultural adjustment.

Social Fund

17. The Council came to a common position on the review of the Fund at its meeting on 2 June 1983.³ Upon completion of the conciliation procedure requested by Parliament it will finalize a new basic Decision under the implementing Regulation, with a view to its entry into force for the 1984 budget year.

In its common position, the Council has indicated that it will introduce provisions under which:

(i) 40% of the allocation for general measures will go to schemes to promote employment in

Greenland, Greece, the French overseas departments, Ireland, the Mezzogiorno and Northern Ireland, with the remainder being concentrated in the other areas having to contend with high and long-term unemployment and/or involved in industrial and sectoral restructuring. Responsibility for drawing the precise borders of those areas will remain part of the Commission's management tasks;

(ii) at least 75% of the allocation available will be used to foster employment for young people under 25, thereby continuing an existing trend within the Social Fund and reflecting the evolution of vocational training and employment policy at national and Community level.

Other changes have been planned that will simplify the Fund's structure and improve procedures for the submission and approval of applications and for payments. They will enable the Commission to play a more active role than hitherto in monitoring and evaluating operations, in promoting innovations in projects related to Community action programmes, and in the dissemination of information and experience.

18. These guidelines are in line with the Commission's proposals for tightening up conditionality and strengthening the qualitative concentration of the Fund's objectives.⁴

The Commission will use the framework offered by the review of the Social Fund⁵ to strengthen the links between Fund intervention and the Community policies on employment and vocational training.

By and large, the projects and programmes submitted for Fund financing will continue to be appraised primarily in the light of their relevance to the general objectives of those policies, notably the guarantee of a job or proper training for young people.

More specifically, however, the Commission will, when drawing up the annual guidelines for Fund

¹ Bull. EC 3-1983, points 1.3.1. to 1.3.13. and 3.4.1. to 3.4.3.

² The necessary room for manoeuvre exists since the Community spends on schemes for improving agricultural structures an amount equal to only some 6% of that disbursed by Member States for the same purpose. See also Supplement 4/83 - Bull. EC.

³ Bull. EC 6-1983, point 2.1.73.

⁴ OJ C 308, 25.11.1982; Bull. EC 10-1982, points 1.2.1. to 1.2.8.

⁵ OJ L 28, 4.2.1971; OJ L 337, 27.12.1977.

management, attach priority, in the context of conditionality, to the programmes that dovetail with common policies, such as those helping to rectify the shortcomings, identified at Community level, in training for the new information technologies.¹

Lastly, the Commission will work with Member States in devising ways of bringing about a qualitative and quantitative improvement in their training and job promotion schemes. This will take place not only as part of the procedure for drawing up the Fund's annual guidelines but also within the context of the longer-term objective of national and regional programme planning and appraisal.

ERDF

19. The impact of the present crisis on Community regions affected by particularly serious structural problems points up more than ever the ERDF's traditional role as an instrument of harmonious Community development.² Certain drastic consequences of the adaptations associated with the decline of some industries mean that the ERDF must take on new tasks.

The proposals which the Commission put forward in October 1981 were designed to equip the ERDF to carry out these new tasks and at the same time to give it greater impact.³

The Commission proposed, in line with the principles set out in this report, a series of qualitative improvements to the Fund's administration: first, a smooth changeover from the current support for individual projects to the joint financing of infrastructure programmes and regional aid schemes on the basis of contract programmes agreed between the Member State concerned and the Commission; second, a greater concentration of objectives, and emphasis on direct support for the indigenous development potential of the regions together with a legal framework and preferential rates for integrated operations; third, a more clearly defined legal form for the coordination of national regional policies.⁴

In order to adapt the Fund to its changing priority tasks, to derive the maximum benefit from the qualitative improvements and to prevent Fund aid from being spread too thinly, the Commission also proposed a radical reorganization for the use

of Fund resources. A more concentrated use of the quota section, reduced to 80% of the Fund, was intended to enable the least-favoured regions in the less-prosperous countries to retain the level of guarantee that they enjoy under the current distribution arrangements; however, a non-quota section with increased resources totalling 20% of the Fund would allow a more flexible response to regional problems throughout the Community, and in particular to the new tasks connected with industrial conversion. The increase – modest in itself – in financial solidarity which stemmed from the proposal therefore represented only one of the aims in view, the other being to adapt the Fund to the tasks confronting it.

20. Some progress has been made in discussions within the Council on a number of important issues, in particular the coordination of national regional policies, programme financing, support for the indigenous potential of regions and the promotion of integrated operations. But more progress is needed to maximize the impact of the planned innovations.

No satisfactory outcome has been reached in discussions on other fundamental matters, in particular the need for a greater qualitative concentration of aid together with a higher rate of participation for priority measures.

Furthermore, the negotiations have so far failed as regards the concentration of the quota section and the volume of the non-quota section. As the months have gone by, the overall view has become blurred and discussions have got bogged down in a search for marginal adjustments to existing quotas. The Commission, which has helped to work towards reasonable compromises in a constructive spirit, is not prepared to accept that the negotiations deal solely with the financial redistribution function of the ERDF. While a greater concentration of Fund resources in the most disadvantaged regions, especially in the less-prosperous countries, is still important, it cannot be the sole objective and may well be reduced simply to a transfer of funds if it is not made part of a coherent programme of reform.

¹ OJ C 166, 25.6.1983; Bull. EC 6-1983, points 1.4.1. to 1.4.9. and 2.1.81; OJ C 162, 29.6.1982; Bull. EC 5-1982, point 2.1.41; Bull. EC 12-1982, point 2.1.65.

² Supplement 4/81 – Bull. EC, pp. 59 to 63.

³ Bull. EC 10-1981, points 1.2.1. to 1.2.9.

⁴ OJ C 36, 9.2.1979; Bull. EC 10-1981, point 1.2.9.

21. Meanwhile, the Commission is administering the Fund as usual pending a decision from the Council.¹ It is pressing for discussions to be resumed on a new basis and proposes an approach which, if accepted by the Council, would enable real progress to be made towards increasing the effectiveness of Community action. This presupposes that the Council will agree to take full account of the twin requirements, inextricably bound together, of Community solidarity and effectiveness as a means of attaining the objectives set by the Community itself.

The essential, inseparable features of the plan proposed are as follows:

1. The Community will set two main priority tasks for the ERDF geared to the fundamental objectives of the Community's structural action:

(i) the *development and structural adjustment* of the less-developed regions;

(ii) the *conversion* of declining industrial areas.

2. ERDF assistance in the context of these priority tasks will take the form of programme contracts jointly financed with the Member States concerned.

These programme contracts will concern regional development or conversion programmes and sets of measures adopted in the light of the Community's ineluctable priorities stemming from the economic crisis (for example, conversion of the steel industry) and the trend of agriculture or deriving from Community policies, notably in the fields of energy, innovation, the environment, transport, etc.

3. These programmes will be closely coordinated with the other structural financial instruments, in particular Community loans; the Commission is maintaining its 1981 proposal² aimed at promoting greater recourse to the technique of subsidized loans for productive investments and would like to see an increase in their share of Fund assistance.³ In the same vein, the Commission is examining whether a revolving fund mechanism could prove feasible.

4. In the light of experience acquired and with enlargement ahead, this new plan will have to be introduced gradually. During an initial stage lasting several years, it will have to be stipulated that programmes financed by the ERDF will be:

(i) either Community programmes governed by appropriate legal provisions broadly outlined in the general regulation;

(ii) or national programmes of value to the Community satisfying the criteria laid down in the general regulation.

In a later stage all ERDF operations should be in the form of programmes satisfying specifically Community objectives governed, within a framework regulation, by provisions adapted to the different types of programme.

The Commission attaches utmost importance to the fact that this legal framework should include decision-making procedures compatible with effective management of structural policy.

5. In both cases, ERDF assistance should be the result of a dialogue between national and Community authorities, involving prior assessment of the benefits of each programme to the Community and of its economic effectiveness, and leading to a programme contract.

6. The Community will have to have the financial and operational resources to conduct technical assistance and information schemes designed to help those national and regional authorities which so desire to draw up their development or conversion programmes and to give them a clearer idea of the opportunities for recourse to the various structural Funds and other Community financial instruments.

7. The distinction between non-quota and quota sections will be abolished.

8. As for the quotas themselves, they will eventually lose their *raison d'être*.

During the transitional phase, therefore, the geographical distribution of total Fund operations could be governed by quantitative guidelines involving a certain degree of concentration compared with the present distribution. These guidelines might, for instance, be indicative ranges for the approximative share for each Member State from the entire Fund during a

¹ It is also hoping that the Council will take an early decision on the second series of non-quota measures.

² OJ C 336, 23.12.1981.

³ In any event a minimum participation will be required from the investor.

