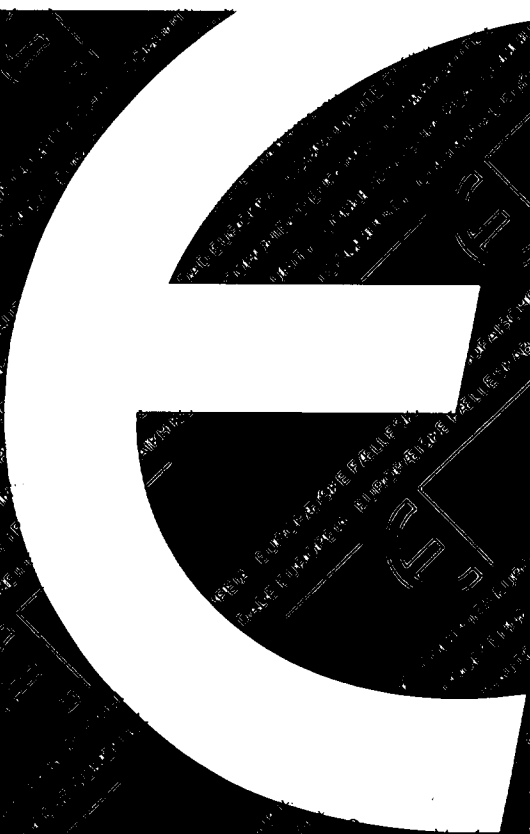


European regional policy



European File

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In every country of the European Community there are disparities between the level of development and prosperity of different regions¹. These disparities, caused by an unequal distribution of economic activity, are much more pronounced when the Community is taken as a whole. The ratio between the least-developed and the most prosperous regions, measured in terms of employment and production, is 1 to 1.3 in Greece, 1 to 1.7 in Spain, 1 to 1.8 in France, 1 to 1.9 in Germany, 1 to 2.1 in the United Kingdom, 1 to 3.9 in Italy, but 1 to 4.7 in the Community at large.²

The regions with the most serious problems can be divided into two main groups:

- The first consists of under-developed regions, whose economy still depends for the most part on agriculture. These regions have low levels of income and, frequently, high unemployment and poorly developed infrastructure. They are to be found principally in Greece, Spain, Portugal, the Italian Mezzogiorno, Ireland and Northern Ireland and the French overseas departments. All of them are on the periphery of the Community, a factor which makes their economic development even more precarious.

- The second group comprises areas whose former prosperity was based on industries that are now in decline, such as coal, steel, shipbuilding and textiles. They were in the forefront of the first industrial revolution but now have outdated industrial structures and high unemployment. There are many such areas in the United Kingdom and also in France and Belgium.

The recession has compounded the problems of rich and poor areas alike. Unemployment has increased everywhere, albeit at markedly differing rates. The less-favoured regions are as far behind as they were and, to make matters worse, certain industrialized regions have gone into decline as well.

A Community regional policy is indispensable

Regional disparities in economic performance impede economic and social cohesion within individual countries as well as in the Community as a whole.

For that reason, national governments have for many years had policies to stimulate the economic development of regions that are in difficulty. Government aid has been

¹ This file replaces our No 7/85. For the situation in the regions, see *European File*, No 15/84: 'The regions of Europe'.

² Source: Commission of the European Communities, Third periodic report on the situation in the regions of the Community.

made available to encourage businesses to set up in these regions and create new jobs there; infrastructures have been improved in order to improve production conditions and attract investors.

An effort at Community level is still indispensable:

- In a large economic area like the Community, national policies alone are no longer enough to reduce regional disparities. We have already seen how the disparities are even greater at European level than at national level. The Community therefore has a special responsibility to work for greater convergence among the economies of Member States and for a more balanced distribution of economic activity.
- A growing number of political decisions, in such areas as external trade, agriculture and industry, are now reached at European level rather than being taken unilaterally by the different governments. These decisions do not necessarily have positive consequences for all regions. The Community has a particular responsibility to deal with the problems that can sometimes arise in this way.
- Finally, coordination is obviously needed in the provision of public infrastructure (roads and canals for instance) and investment aids, for regions straddling the Community's internal frontiers.

Under the Treaty of Rome the European Economic Community has the task of promoting a harmonious development of economic activities throughout its territory, as well as an accelerated raising of the standard of living. In the Single European Act, which strengthens the Treaty of Rome, it is made clear that the Community must reduce the disparities between the various regions and the backwardness of the least-favoured regions.

First: analyse the state of the regions and their progress

To carry out an effective regional policy, the Community bodies clearly need to evaluate the relative gravity of regional problems on a European scale. A region that is considered disadvantaged by the standards of a prosperous country might be fairly rich by the standards of a poor one. Community criteria are therefore necessary in order to make valid comparisons and determine priorities for action. To that end the

European Commission periodically draws up a report on the economic and social situation of all the regions of the Community. On that basis it proposes to the Council of Ministers priorities and policy principles for regional development.

The three dimensions of European Community regional policy

First, the Community's regional policy attempts to coordinate the regional policies of Member States. Secondly, it introduces a regional dimension to the other policies of the Community. Thirdly, it provides a wide range of financial aid for development activity to benefit the less-favoured regions of the Community.

Coordinating the regional policies of Member States

Financial aid alone is not enough to reduce the disparities between the regions of the Community. The success of regional policy efforts requires first of all close collaboration among the Member States.

It would not be desirable to try to impose on Member States a uniform pattern of regional development policy. Coordination of national policies is, however, indispensable: these must be compatible with each other and with Community objectives. The purpose of this coordination is to ensure that resources are used where they are most necessary for ensuring a gradually better distribution of economic activity and prosperity. It involves coordinating State regional aids and development programmes.

- Where public aid for investment is concerned, governments are often tempted to engage in destructively outbidding each other by increasing the level of their aid. Common rules are needed to avoid wasting money and to ensure greater coherence. The European Commission therefore defines the regions in which State investment aids are allowed and sets ceilings for these aids. The ceilings vary according to the seriousness of the problems faced by each region.
- Regional development programmes are the other main instrument for coordinating regional policies. Member States must indicate in these programmes the problems of each region where public regional aid is allowed and the national measures by which it is intended to resolve the problems. The programmes are thus drawn up on a common model and enable national regional development aids to be compared and coordinated. They also serve as a reference framework for the allocation of money from the European Regional Development Fund and for regional development loans from the European Investment Bank.

Taking account of the regional impact of other Community policies

Because of the interdependence of economic and regional policy, the Community's regional policy is linked to its approach to the various sectors of the

economy. It is not possible to ignore the regional impact of Community policy in a given sector, when that sector represents an important part of the economic activity of a region.

Analysis of the regional impact of sectoral policies, however delicate it may be in many cases, must be carried out more and more by the European Commission, and also by the Council of Ministers and the European Parliament. The point is to avoid increasing the handicaps of backward or declining regions and to allow them to take full advantage of new policies. Gradually more account has been taken of regional effects in the common agricultural policy (in regard to Mediterranean produce, for example) and in a number of other sectoral policies (steel, shipbuilding, textiles, fisheries); the principle is being applied in the fields of energy (the Community's Valoren programme) and telecommunications (the STAR programme).

□ *Financial aid to the regions*

The Community's most obvious contribution to regional policy is of course its various financial aids, particularly those from the European Regional Development Fund and from the European Investment Bank, but also from other structural aid facilities:

- In coal and steel areas the *European Coal and Steel Community (ECSC)* has, since 1954, given loans totalling nearly 14 000 million ECU¹ – including nearly 1 100 million in 1986 – to modernize coal and steel industries and to attract new job-creating investment.
- The *European Investment Bank (EIB)* has the task of helping to ensure balanced development in the Community. To that end it gives loans to aid regional development, particularly for public and private investment in infrastructure and industry. Of the 42 100 million ECU loaned by the Bank in the Community between 1958 and 1986, nearly 27 500 million was for developing less prosperous regions. The amount loaned for that purpose in 1986 was 3 600 million pounds, or about 54 % of total lending, which came to 6 700 million.
- A *New Community instrument (NCI)* is in existence since 1979 and gives loans largely for modernizing infrastructure, developing energy resources and, since 1982, particularly for developing small and medium-sized businesses. 5 500 million ECU has been paid out (393 million in 1986). It should be emphasized that, in order to complement the activities of the EIB, these loans were mainly directed to investment outside regional development zones; still, the less prosperous regions received 30 % of the 4 500 million ECU loaned between 1982 and 1986.

¹ 1 ECU (European Currency Unit) = about £ 0.7, Ir £ 0.8 or US \$ 1.1 (at exchange rates current on 5 June 1987).

- The *European Social Fund* and the *ECSC* have together given aid totalling 15 500 million ECU (2 700 million in 1986) for the training, hiring and re-training of workers. A very large proportion of this aid was directed to projects in less-favoured regions. Since 1986, 44.5 % of Social Fund aid has been reserved for priority regions: the Mezzogiorno, Greece, Ireland, Northern Ireland, French overseas departments, Portugal and several regions of Spain.
- The *Guidance section of the European Agricultural Fund (EAGGF)* has given aid totalling about 9 100 ECU (990 million in 1986) for the modernization of food production and marketing structures.
- Finally, the *European Regional Development Fund (ERDF)* has given 17 500 million ECU since its creation in 1975 (including more than 3 300 million in 1986) for promotion of economic activity and improvement of infrastructure in regions that qualify for Community aid. These regions have 132 million inhabitants, 41.3 % of the total population of the Community.

The Community thus has a whole range of budgetary and lending instruments which, though they are geared for different policy areas, have the same objective: economic development. For several years the Community has been improving the coordination of its aids, not only at the level of principles and guidelines, but also in regard to specific operations on the ground. Hence the 'integrated approach' which has been put into practice in certain specific cases. Several activities of this kind are going on; an example is the integrated Mediterranean programmes which were begun in order to modernize the regions most exposed to increased competition as a result of the last enlargement of the Community.¹

The ERDF: specific instrument of Community regional policy

The specific objective of the ERDF is to help to correct the most serious regional imbalances in the Community. To do that, the Fund makes a contribution to the development and structural adjustment of under-developed regions and to the restructuring of declining industrial areas.

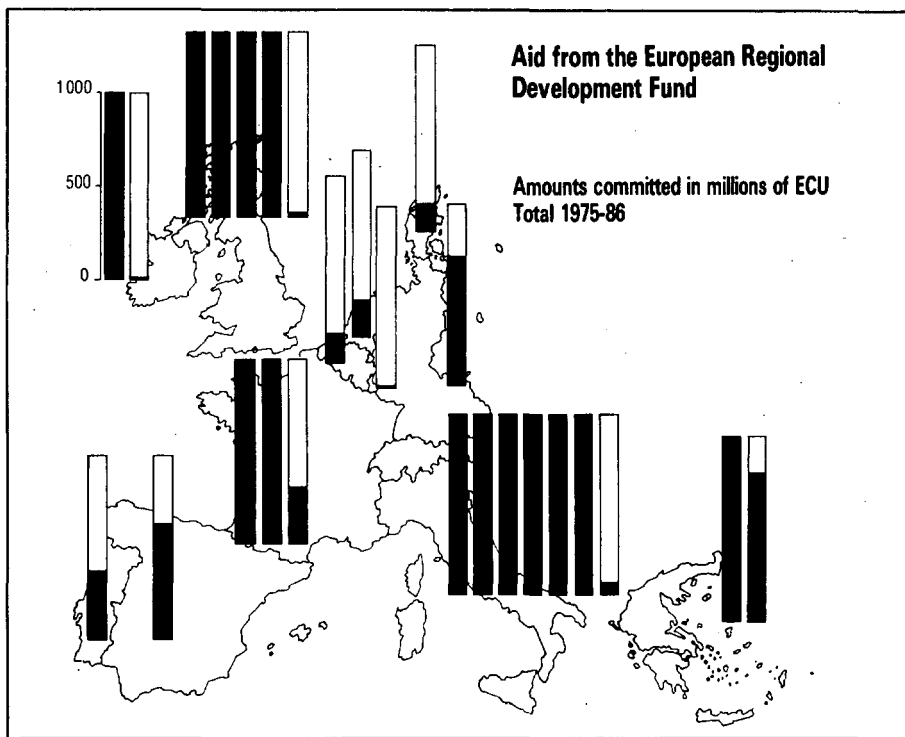
The new Regional Fund Regulation (EEC) No 1787/84 has been in force since 1 January 1985. Its chief innovations are:

- Particular emphasis on the co-financing of programmes.
- Promotion of the regions' indigenous development potential.
- More coordinated aid from different Community instruments for regional development.

¹ See *European File*, No 1/86: 'The integrated Mediterranean programmes'.

Under the new regulation the Regional Fund can help finance programmes, individual projects and studies.

- Programmes* consist of coherent sets of projects and activities for a certain zone, to be carried over a period of years.
 - *Community programmes* ensure that regional development objectives dovetail with the aims of other Community policies. The initiative for these programmes is taken by the European Commission, which proposes an overall framework (objectives, area of operation, kind of aid, rules for obtaining it and level of participation of the ERDF) to be approved by the Council of Ministers, deciding by qualified majority. Detailed implementation programmes are then drawn up by the Member States concerned in cooperation with the Commission, which approves and co-finances them.
 - *National programmes of Community interest* help to achieve the aims of the Community. They are proposed by Member States and adopted with the approval of the European Commission, which co-finances them. For their implementation there are sustained consultations between local, regional, national and Community authorities. The programmes are the vehicles for the application of a regional development strategy to a zone or to several sectors of value to development.
- The ERDF also gives a large measure of aid to *individual investment projects* in infrastructure or in industry, handicrafts or services.
- Measures to exploit the indigenous development potential of regions account for a significant proportion of the programmes mentioned above. They can also be presented as coherent sets of individual projects. Their purpose is to identify the individual development possibilities of regions, to support businesses – particularly small and medium-sized enterprises – in such matters as technology transfer, market studies, common services and access to capital markets, or to contribute towards public spending on planning, technical preparation and implementation of ERDF aid. In encouraging activities of this kind, the Community wants to give a new direction to its regional policy. For a long time the policy was centred on external investment and investors that would move into less-favoured regions themselves, whether they be small and medium-sized businesses, handicrafts, alternative energy sources or whatever. This change is made all the more necessary by the fact that, because of the recession, it is becoming more and more difficult to attract investment to the less-favoured regions. One of the ways of stimulating the productive sector is by helping those who work in economic promotion; these people have the task of canvassing initiatives through information campaigns and of helping the commercial operator as the project is being carried out.
- The ERDF can also co-finance studies that are either closely linked to the operation of the Fund or are of particular value for the effective utilization of resources.



Breakdown 1975-86

	Projects*	Programmes**	Studies	Total	1986 aid
B	149.44	17.53	2.00	168.97	32.32
DK	148.80	2.29	5.97	157.06	11.12
D	699.64	11.00	0.19	710.83	82.56
GR	1 787.75	31.38	0.12	1 819.25	316.72
E	640.88	—	—	640.88	640.88
F	2 162.98	147.90	6.59	2 317.46	309.98
IRL	991.22	16.70	0.62	1 008.54	126.76
I	5 985.88	59.04	21.37	6 066.29	833.82
L	11.63	3.42	—	15.05	3.42
NL	195.82	8.51	0.19	204.52	29.72
P	380.85	—	—	380.85	380.85
UK	3 742.90	270.52	8.67	4 022.10	558.76
Misc.	—	—	1.26	1.26	1.26
TOTAL	16 897.79	568.29	46.98	17 513.06	3 328.13

* Including activities to realize indigenous development potential, in the form of individual projects.

** Including programmes implemented in the 'specific activities' framework.

Source: Commission of the European Communities, DG XVI.

The finance available under the ERDF is divided among Member States according to a set of upper and lower percentage limits:

Belgium	0.61 to	0.82%	Ireland	3.82 to	4.61%
Denmark	0.34 to	0.46%	Italy	21.62 to	28.79%
Germany	2.55 to	3.40%	Luxembourg	0.04 to	0.06%
Greece	8.36 to	10.64%	Netherlands	0.68 to	0.91%
Spain	17.97 to	23.93%	Portugal	10.66 to	14.20%
France	7.48 to	9.96%	United Kingdom	14.50 to	19.31%

The lower limit in each case is the minimum ERDF financing guaranteed to that Member State, on condition that enough eligible requests for aid are submitted to the European Commission. The variation each year in allocations between the upper and lower limits will depend on the extent to which projects and programmes submitted for ERDF financing are considered significant in Community terms.

The rate of financing by the ERDF will generally be 50 to 55% of the public expenditure on the project or programme in question, including the Community grant.

The ERDF also gives grants for 'specific regional development programmes'. These were initiated under the old Fund regulation which was in force until 1985. The specific programmes were principally intended to forestall the unfavourable effects of the enlargement of the Community on certain regions, or were intended to complement Community redevelopment programmes in regions dependent on steel, shipbuilding, textiles and clothing, or fishing. This kind of aid is given outside the set percentage limits and is to be replaced by Community programmes when the current projects are completed.

1975-86: 12 years of ERDF aid

In the 12 years of its existence, from 1975 to 1986, the ERDF has had its budget increased twelvefold. It has grown from 257.6 million ECU in 1975 (4.8% of the Community's general budget) to over 3 300 million in 1987 (9% of the budget).

The distribution of ERDF aid shows a strong concentration in a number of Member States that display the most serious regional imbalances. In 1986 more than 87% of the aid was concentrated in six countries: Italy, Spain, the United Kingdom, Portugal, Greece and Ireland. If ERDF financing is related to the number of people living in the eligible areas of each country, Greece and Portugal come out on top, followed first by Ireland and then by Spain and Italy.

Nearly 73% of ERDF aid in 1986 went to the priority regions: the Mezzogiorno, the regions of Greece (excluding Athens), Ireland, Northern Ireland, the French overseas departments and most of the regions of Spain and Portugal.

The following is a record of the Fund's operation between 1975 and 1986, according to the various forms of aid provided.

- Since it was set up, the ERDF has co-financed with Member States more than 33 000 *individual investment projects*. These consisted of:
 - Investments that allowed the creation or preservation of jobs in industry and services. 8 559 projects were co-financed and about 765 000 jobs were created or preserved, according to the advance estimates supplied by the Member States. A similar number of jobs should be created indirectly. Where it is a question of preserving jobs, the investment must be made in the framework of a redevelopment or restructuring programme that ensures the establishment will be competitive. Because Member States have not submitted enough applications, the share of ERDF allocations going to industry and services is still below the target of 30%.
 - Infrastructural work contributing to regional development (roads, ports, industrial estates, power stations etc.). Since 1975, the Fund has co-financed nearly 25 000 projects, such as the supply of natural gas to the Mezzogiorno. According to some estimates, the activity generated by infrastructural investment aided by the ERDF since its creation is equivalent to a year's work by 1.3 million people in the building and public works sector.
- From 1981, *certain specific Community regional development activities* were undertaken in the form of programmes, a departure that foreshadowed some of the general approaches embodied in the new ERDF regulation. Between 1981 and 1986 the Commission approved 25 programmes and gave them ERDF aid totalling 859 million ECU, spread over several years.
- In 1985 the ERDF began giving aid *to national programmes of Community interest* and to projects that were not programmes but were aimed at realizing the *indigenous development potential* of regions. After a start-up period, requests for aid under these new forms became more numerous in 1986. In 1985 and 1986 the Commission decided to give ERDF aid to 20 national programmes of Community interest and to four projects concerning the indigenous potential of regions; they were allocated a total of about 706 million ECU over a number of years. These programmes and projects are concerned with regions in France, the United Kingdom, the Netherlands, Greece, Belgium, Denmark and Luxembourg.
- The first *Community programmes* are beginning to be implemented in 1987. Their aims are to improve access for less-favoured regions to advanced telecommunications services (STAR) and to put local energy potential to use (Valoren). The basic regulations for these programmes were adopted by the Council of Ministers in October 1986. The regions involved are those of Greece,

Portugal, Ireland, the United Kingdom (Northern Ireland), the Mezzogiorno, Spain, Corsica and the French overseas departments. The total ERDF aid for these programmes is to be 1 200 million ECU over five years.



The Community's regional policy dates from 1975: it is a relatively recent thing but it has developed rapidly. Its impact has become even greater due to the implementation of the new forms of aid set out in the regulation that entered into force on 1 January 1985. A further reform is now being prepared, following the adoption of the Single European Act which reinforces the Treaty of Rome. The Act provides for a remodelling of the structure and operation of the Community's structural funds, including the Regional Fund. It will involve clarifying and rationalizing their tasks, so as to increase their efficiency and better coordinate their activities. This overall reform is necessary in order to give new impetus to the reduction of regional disparities, which have been increased by successive enlargements of the Community. A more balanced distribution of economic activity is one of the basic preconditions for progress in the building of the Community. It is also a tangible symbol of European solidarity ■

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