ECONOMIC AND SOCIAL COMMITTEE
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General Secretariat

Action by the European Community through its financial instruments

Documentation

EDITIONS DELTA

Brussels, 1979

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ECONOMIC AND SOCIAL COMMITTEE
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Studies and Research Division

Original : F

Documentation on

ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS

1972 - 1976

- The European Investment Bank (EIB)
- The European Regional Development Bank (ERDF)
- The European Social Fund (ESF)
- The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)
- The ECSC Fund

prepared with

a view to a better co-ordination of these Community financial instruments

Part A : Analysis of the activities of the different instruments

Part B : Overall assessment of the features and weaknesses of the different instruments and suggested ways of improving the way they operate

Part C : Co-ordination of financial instruments

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CO-ORDINATION OF THE COMMUNITY'S FINANCIAL INSTRUMENTS

INITIAL OBSERVATION

This document has been drawn up by the Division for Studies and Documentation (General Directorate), which assumes sole responsibility.

The aim is to inform members of the Committee and its constituent bodies of the activities of the Community's financial instruments and how they are co-ordinated, if at all.

The document is not binding upon the Committee, its constituent bodies or the Groups.

PREFACE

Each year, the Economic and Social Committee issues Opinions on the economic and social situation in the Community and, on numerous occasions, on the common structural policy. Basically, there are five financial instruments for implementing the latter : the European Investment Bank (EIB), the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Guidance Section of the EAGGF and the ECSC Fund (Articles 54 and 56 of the ECSC Treaty).

If Community policy is to be effective, it is essential that these instruments are co-ordinated (see, for example, the ESC Opinion of 28 April 1977 on the Communication from the Commission to the Council in connection with the Review of the Rules Governing the Tasks and Operations of the European Social Fund).

Bearing in mind the Committee's repeated requests that these instruments be co-ordinated, it may be a good idea to take a long, hard overall look at their activities and their impact on the structural policy.

The Division for Studies and Documentation has therefore examined the activities of the financial instruments over the last five years (1972-1976) for which information was available.

This examination is based solely on the Regulations governing the operations of these instruments and the annual report on their activities. We have tried to take a thorough look at each of the financial instruments covered.

The tables contained in our description came from official figures in the annual reports of the last five years.

Our conclusions consist of a few suggestions and assessments at the end of this paper.

This document is not intended to duplicate the Commission's work on co-ordinating the political and administrative activities of the financial instruments.

It is merely a technical survey of their features and weaknesses that brings out the main trends in their activities.

Documentation on

ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS
1972 - 1976

- The European Investment Bank (E.I.B.)

Part 1

Chapter I

The European Investment Bank (EIB)

THE EUROPEAN INVESTMENT BANK

(E. I. B.)

A. INTRODUCTION

Like the Social Fund, the European Investment Bank was set up by the Treaty of Rome (see Article 129 of the EEC Treaty). Article 130 of the Treaty describes the task of the EIB and lays down what resources are at its disposal:

"The task of the European Investment Bank shall be to contribute, by having recourse to the capital market and utilising its own resources, to the balanced and steady development of the common market in the interest of the Community. For this purpose the Bank shall, operating on a non-profit-making basis, grant loans and give guarantees which facilitate the financing of the following projects in all sectors of the economy:

a)projects for developing less developed regions;

b) projects for modernising or converting undertakings or for developing fresh activities called for by the progressive establishment of the common market, where these projects are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States;

c) projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States."

In addition, a protocol appended to the EEC Treaty lays down the statute of the EIB and organises the way in which it operates.

Article 4 of the protocol contains details on the EIB's capital, which, with reserves and provisions, constitute its own resources. The EIB's capital, which was increased following the accession of the three new Member States, amounts to 2,025 million u.a. broken down as follows:

Germany	: 450 million (22.22 %)
France	: 450 million (22.22 %)
United Kingdom	: 450 million (22.22 %)
Italy	: 360 million (17.77 %)
Belgium	: 118.5 million (5.85 %)
Netherlands	: 118.5 million (5.85 %)
Denmark	: 60 million (2.96 %)
Ireland	: 15 million (0.74 %)
Luxembourg	: 3 million (0.14 %)

The protocol also lays down procedures for providing loans and guarantees. The Bank is a non-profit-making body run by a Board of Directors which "has sole power to take decisions in respect of granting loans and guarantees and raising loans" (Article 11). The criteria for granting loans are sufficiently flexible to give the Bank a good deal of freedom. There is no ceiling on any loans or on the proportion of a loan provided when financing a project. Article 20 merely requires the Bank to see that it grants loans only to firms which are financially sound and states that a project should "contribute to an increase in economic productivity in general and promote the attainment of the common market." Moreover, the Bank cannot finance any project which is opposed by the Member State in whose territory it is to be carried out.

According to Article 21, applications for loans may be made to the Bank either :

- through the Commission; or
- through the Member State concerned; or
- directly by a firm.

The Commission and the Member State concerned have to give their opinions on a project within a certain period. If no reply is received, it is assumed that the project has their approval. The Management Committee (whose members are appointed by the Board of Governors on a proposal from the Board of Directors) must also give its opinion on whether a loan or guarantee should be granted. If both the Commission and the Management Committee give an unfavourable opinion, a loan cannot be granted. If the Commission alone gives an unfavourable opinion, then the Board of Directors must approve a loan unanimously, the director nominated by the Commission abstaining.

Although there is no ceiling on loans, in practice the Bank rarely loans more than 80 million units of account for any one project. However, for large-scale projects of Community interest, several loans may be granted which, together, come to more than 80 million u.a. One example of this was the project to build the Bugey nuclear power station at Saint-Vulbas in the Rhône-Alpes department of France, which received four loan instalments totalling well over 100 million units of account.

The loans put up by the EIB rarely come to more than 50 % of the total cost of a project.

B. Importance and features of the EIB in relation to other Community financial instruments

Table I : Budgets of the financial instruments in absolute and relative figures (1972 - 1976)

M.U.A.	1972		1973		1974		1975		1976	
Social Fund	97.75	11.00 %	282.95	21.68 %	327.8	21.81 %	366.14	20.81 %	441.—	20.46 %
Regional Fund	-	-	-	-	-	-	150.—	8.52 %	300.—	13.92 %
EAGGF - Guidance	285.00	32.07 %	325.—	24.91 %	325.—	21.63 %	325.—	18.48 %	327.50	15.20 %
E.I.B.	505.90	56.93 %	696.80	53.40 %	849.7	56.55 %	917.50	52.17 %	1086.—	50.40 %
TOTAL	888.65	100.— %	1304.75	100.— %	1502.5	100.—	1758.64	100.— %	2154.50	100.— %

(The figures for the EIB represent the amount allocated annually to loans and guarantees within the Community. They do not include funds granted to non-Member-States).

These figures relate to the appropriations for payment and not the appropriations for commitment which in the case of the ERDF are for example 300 million UA (1975) and 500 million UA (1976 and 1977).

This comparison has its shortcomings in view of the fact that the Bank gives loans and guarantees whereas other financial instruments gave non-refundable aids; nevertheless it illustrates the EIB's important role in Community action on the economic and social fronts. (Loans are generally granted in respect of job-creating projects).

2. The Bank differs from other financial instruments in several respects; take for example the type of aid it supplies (loans and guarantees). The Bank is also highly flexible since unlike other financial institutions it enjoys considerable operational autonomy. On the institutional front the Bank also enjoys financial independence since its Budget is separate from that of the Communities.

3. This flexibility is also illustrated in the way loans are granted to the various countries. The EIB has no quota system for granting aid. The ERDF aid is however subject to a national quota system and Social Fund and EAGGF Guidance Section aid is confined to certain types of action.

The two following tables illustrate the annual trend in loans granted. The first table breaks the trend down by country and the second by area of activity. Both tables reveal relatively important variations which illustrate the Fund's flexibility.

Table II - Loans granted to Member States from 1972 to 1976

	1972		1973		1974		1975		1976		1973-1976	
	M.U.A.	%	M.U.A.	%	M.U.A.	%	M.U.A.	%	M.U.A.	%	M.U.A.	%
Belgium	14.4	2.8	-	-	16.1	1.9	10.8	1.2	17.9	1.7	44.8	1.2
Denmark	-	-	6.8	0.9	19.6	2.3	17.7	1.9	9.1	0.8	53.2	1.4
Germany (F.R.)	130.4	25.7	204.5	29.3	96.1	11.3	-	-	110.8	10.2	411.4	11.6
France	144.9	28.6	190.4	27.3	193.7	22.8	158.-	17.2	60.1	5.5	602.2	17.0
Ireland	-	-	22.6	3.2	46.4	5.5	37.7	4.1	57.4	5.3	164.1	4.6
Italy	216.2	42.7	205.4	29.4	278.-	32.7	358.8	39.1	382.6	35.2	1224.8	34.5
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	31.9	3.7	-	-	30.4	2.8	62.3	1.7
U.K.	-	-	67.1	9.4	149.5	17.6	334.5	36.5	417.6	38.5	968.6	27.3
TOTAL	505.9	100.-	696.8	100.-	849.7	100.- (1)	917.5	100.-	1086.-	100.-	3550.-	100.- (2)

(1) The Ekofisk project which is regarded as outside the Community, received 2.2 % (18.4 M.U.A.)

(2) The Ekofisk project accounts for 0.5 %.

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The nature of aid from the E.I.B. makes it vital to have a flexible system for allocating loans between the different countries.

The attractiveness of EIB loans varies all the time, and firms in the different Member States of the Community are keen or less keen on taking them up, depending on the interest rate prevailing in each Member State. Applications for loans are naturally thinner on the ground in a country where the interest rate is relatively low by comparison with the Community average, and where it is about the same as, or less than, the interest rate applied by the EIB. The introduction of national quotas would therefore be an unwelcome move since it makes it possible for certain countries not to useup their quotas.

Table III : Breakdown of loans by sector

	1972		1973		1974		1975		1976	
Infrastructures	354.1	67.2 %	449.5	55.1 %	545.7	64.2 %	779.3	84.9 %	788.2	72.6 %
Agriculture, Industry, Services	172.7	32.8 %	366.6	44.9 %	304.0	35.8 %	138.2	15.1 %	297.8	27.4 %
TOTAL	526.8	100.- %	816.1	100.- %	849.7	100.- %	917.5	100.- %	1086.-	100.- %

4. La Banque also differs from other financial bodies in the respect of the source of its funds. There are two major sources:

- from own resources
- from borrowing.

Own resources comprise a) the capital put up by Member States (only 15.71 % of which has been called upon), b) statutory reserves and c) financial cover.

Funds are borrowed on various capital markets, some of which lie outside the Community (Switzerland, Japan, United States, etc.), at interest rates ranging in 1976 from 5.875 % to 8.9 % and for terms between 5 and 20 years.

The EIB thus relies,in financing its operations, on the capital market. This is what makes it different from other Funds.

The financing bodies referred to here are generally regional development agencies which coordinate investment at regional level and centralize loan applications from small-scale local bodies or enterprises.

Table IV : EIB Financial Support, by Type, in 1972 - 1976

	1972		1973		1974		1975		1976	
	M.U.A.	%	M.U.A.	%	M.U.A.	%	M.U.A.	%	M.U.A.	%
Direct loans	282.3	55.8	490.2	70.4	612.8	72.1	733.3	79.9	696.4	64.1
Indirect loans	173.4	34.2	97.-	13.9	104.-	12.2	174.-	19.-	210.3	19.4
Overall loans	33.2	6.6	109.6	15.7	132.9	15.6	10.2	1.1	61.2	5.6
Guarantees	17.1	3.4	-	-	-	-	-	-	118.1	10.9
TOTAL	505.9	100.-	696.8	100.-	849.7	100.-	917.5	100.-	1086.-	100.-

If we refer to the last four years, which are the most significant since figures only relate to the nine-member Community since 1973, we note that direct loans (plus guarantees, which generally concern large-scale schemes) account for the bulk. Indirect and overall loans have not risen above 30 % since 1973. That second category covers loans granted through financial bodies, which reveals the limits to the current influence of regional bodies on the investment policies of the Member States.

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C. THE BANK'S OPERATIONS

1. Types of operations

In accordance with the description of its tasks given in Article 130 of the EEC Treaty, the E.I.B. operates by granting loans and giving guarantees.

Loans account for the major part of the Bank's operations, as is shown by the Table below. They can be devided into three categories:

- individual loans:

  . direct loans : loans are granted directly to the firm or public authority which has submitted the project to be financed.

  . indirect loans : loans are granted to a specialized financial institution which is responsible for forwarding the funds in order to finance (as with direct loans), a specific project submitted by a firm or public authority. This type of action enables regional authorities to plan their regional development more efficiently.

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- overall loans :

  These are granted to finance houses which allocate sums to a number of small and medium-size industrial investments (the EIB giving its approval in each case).

Table V : EIB Financial Support, by Type and Country, in 1973 - 1976

1973 - 1976	direct loans		indirect loans		overall loans		guarantees		TOTAL
Belgium	26.9	60.- %	-	-	17.9	40.- %	-	-	44.8
Denmark	43.6	81.8 %	-	-	9.7	18.2 %	-	-	53.3
Germany	279.3	67.9 %	-	-	30.5	7.4 %	101.6	24.7 %	411.4
France	308.2	51.2 %	205.-	34.- %	89.-	14.8 %	-	-	602.2
Ireland	144.1	87.8 %	10.6	6.4 %	9.4	5.7 %	-	-	164.1
Italy	744.4	63.2 %	318.7	26.- %	131.5	10.7 %	-	-	1224.6
Netherlands	45.8	73.5 %	-	-	-	-	16.5	26.5 %	62.3
U.K.	892.-	85.5 %	125.8	12.- %	25.8	2.5 %	-	-	1043.6
TOTAL	2514.3	69.7 %	660.1	18.3 %	313.8	8.7 %	118.1	3.3 %	3606.3

The table shows the radical differences between Member States. Some have completely disregarded certain types of loan over the last four years: Belgium, Denmark, Germany and the Netherlands in the case of indirect loans; the Netherlands for overall loans. The new Member States are borrowing a much higher percentage directly than the others, which suggests that their regional bodies do not really look on the EIB as an instrument which can help with regional problems.

Indirect and overall loans seem the best suited to achieving a degree of coordination between Community and national regional development policies at the EIB level. They should also further closer collaboration between the EIB and the regional bodies. Furthermore, overall loans make it possible to establish a "diversified fabric of labour-intensive industries" (1).

2. Average amount, average contribution and employment impact of Bank assistance

a) In the last five years, the average amount per project of EIB loans has been 14.3 m.u.a. (range from 12.1 to 16.9 m.u.a.). This figure gives an

(1) E.I.B. Report for 1974, p. 19

.../...

idea of the scale of industrial investment which is assisted by EIB loans. Given the scale of the investment involved, it is fair to ask the question prompted by the principal objectives of the various financial instruments. To what extent does this investment create jobs?

b) The EIB does not give figures on the number of jobs created by investment schemes for which it has provided loans. It has, however, worked out the investment per job created. A subdivision is made between investment schemes receiving individual loans and those receiving overall loans, since small schemes involve a smaller investment per job created (2).

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(2) The aids granted by the FEDER in 1876 led to the creation of 55,000 jobs (38,500 u.a. per job).

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Table VI : Cost of creating one job, according to type of loan

	Individual loan	Overall loan
1974	152,000 u.a.	24,000 u.a.
1975	98,000 u.a.	23,000 u.a.
1976	156,000 u.a.	29,000 u.a.

The size of these figures is mainly attributable to the variety of the sectors receiving EIB loans. Some of them (eg nuclear energy), despite their impact on industrial and regional development, do not directly create a large number of jobs. The study of EIB activities by sectors is dealt with below.

c) On average, EIB loans account for 25 % of the cost of beneficiary schemes. However, the percentage is higher for overall loans (35 %), which are considered to make a greater contribution to regional development since they are intended to create a more diversified industrial structure.

3. EIB Activities by Sector

Table VII : Distribution of EIB Loans by Sector

Sector	1972 (2)		1973 (2)		1974		1975		1976	
1. Infrastructures	354.1	67.2%	449.5	55.1%	545.7	64.2%	779.3	84.9%	788.2	72.6%
a) Agricultural improvement	-	-	-	-	-	-	-	-	-	-
b) Water supply	-	-	3.6	0.4%	-	-	115.0	12.5%	74.3	6.8%
c) Energy	100.6	19.1%	227.8	27.9%	406.8	47.9%	327.9	35.7%	376.5	34.7%
d) Transport	167.9	31.9%	89.2	10.9%	77.3	9.1%	138.7	15.1%	107.2	9.9%
e) Telecommunications	85.6	16.2%	128.9	15.8%	61.6	7.2%	197.7	21.6%	200.1	18.4%
II. Agriculture, industry, services	172.7	32.8%	366.6	44.9%	304.-	35.8%	138.2	15.1%	297.8	27.4%
a) Agriculture, forests, fisheries	-	-	12.4	1.5%	0.7	0.1%	1.3	0.1%	-	-
b) Industry	172.7	32.8%	352.-	43.1%	300.8	35.4%	135.3	14.7%	297.8	27.4%

Sectors	1972 (2)		1973 (2)		1974		1975		1976	
of which: 1. Extractive industry	5.7	1.1 %	1.4	0.1 %	0.6	0.1 %	0.6	0.1 %	2.2	0.2 %
2. Steel, metal	38.6	7.3 %	91.2	11.2 %	65.8	7.8 %	47.9	5.2 %	109.3	10.1 %
3. Construction equipment	35.7	6.8 %	7.3	0.9 %	11.4	1.3 %	14.1	1.5 %	7.2	0.7 %
4. Timber	-	-	2.1	0.3 %	4.2	0.5 %	5.-	0.5 %	3.8	0.3 %
5. Glass and ceramics	-	-	8.1	1.- %	2.9	0.3 %	2.2	0.2 %	4.7	0.4 %
6. Chemical industry	22.8	4.3 %	10.4	1.3 %	44.5	5.2 %	36.5	4.- %	98.7	9.1 %
7. Mechanical engineering, metal products	10.1	1.9 %	11.9	1.5 %	31.3	3.7 %	17.2	1.9 %	8.7	0.8 %
8. Cars, transport equipment	7.5	1.4 %	69.3	8.5 %	8.9	1.- %	2.1	0.2 %	17.1	1.6 %
9. Electric engineering, electronics	18.3	3.5 %	2.7	0.3 %	7.2	0.9 %	12.8	1.4 %	6.3	0.6 %
10. Food	8.2	1.6 %	29.8	3.6 %	48.7	5.7 %	42.8	4.7 %	7.7	0.7 %
11. Textiles, leather	8.8	1.7 %	5.6	0.7 %	9.0	1.1 %	1.6	0.2 %	4.4	0.4 %
12. Paper palp, paper	1.3	0.2 %	22.-	2.7 %	6.0	0.7 %	1.1	0.1 %	1.3	0.1 %
13. Rubber,plastics	3.8	0.7 %	1.7	0.2 %	1.6	0.2 %	2.6	0.3 %	11.9	1.1 %

.../...

Sectors	1972 (2)		1973 (2)		1974		1975		1976	
14. Other industries	-	-	-	-	2.0	0.2 %	1.7	0.2 %	0.1	-
15. Building, civil engineering	-	-	-	-	-	-	-	-	0.6	-
16. Overall loans (1)	11.9	2.3 %	88.5	10.8 %	56.7	6.7 %	-52.9	-5.8 %	13.7	1.3 %
c) Services	-	-	2.2	0.3 %	2.5	0.3 %	1.6	0.2 %	-	-

(1) The figure is the difference between the overall loans for the year under review and disbursement of overall loans committed in previous years.

(2) The figure for these two years covers loans inside and outside the Community.

The first thing which deserves commenting on is the overwhelming amount of money that has gone on infrastructure projects. This trend, which has increased in recent years, can be explained by three factors:

1) Because of the economic situation, there has been a sharp fall in private investments in the industrial sector. The share of public investments in infrastructure projects has therefore become proportionally greater.

2) Since the oil crisis, there has been an increased desire for the Community to be more self-sufficient in energy. This has led to a very big increase in investments in energy, which has been incorporated into the infrastructures sector.

3) The main object of the EIB's activities is to develop the regions. But before there is any possibility of industrial development in a region , there must first be sufficient transport and telecommunications infrastructures to encourage firms to re-locate in that area.

Another thing worth mentioning is the almost total lack of loans to agriculture. This can be explained by the special situation of the agriculture sector, which is already the sole beneficiary of another financial instrument, the EAGGF. (It should, however, be pointed out that food production benefited from some sizable loans in 1973, 1974 and 1975). The amount of loans to industry reflect quite clearly the economic trend in the Community. There is little additional knowledge to be gained from having these figures in detail. The amounts allocated to different sectors vary considerably from one year to another. This can be explained by the fact that, because of the small sums involved (in the present system), one investment in a sector causes a big change in the percentage breakdown. However, two sectors do occur regularly: steel (including metal and mechanical goods) and chemicals.

The ever-growing chemicals sector is in constant need of new investments because it is closely linked to new developments in science and technology.

Like other financial instruments, the EIB too is used to give support to the Community's declining steel industry. Steel is an important locomotive sector in a considerable part of the Community, and the steel crisis requires energetic action to be taken because of its effect on jobs and certain regions. The results of the measures taken in the steel industry could be a good guide to the effectiveness of the Community's financial instruments.

4. The EIB's Activities (EEC Treaty Article 130) and their Regional Impact

Article 130 of the EEC Treaty lays down three areas where the Bank can operate. To qualify for a loan, projects must be within the European territory of a Member State and have one of the following three objectives:

1) To develop less developed regions;

2) To modernise or convert existing firms; or

3) To constitute an initiative of common interest to several Member States.

A project may have one of the above objectives or several of them at the same time.

Thus there are three types of project eligible for EIB loans :

- Regional development projects;
- Projects of interest to one sector; or
- Projects of common European interest.

The following table shows how much is loaned to each of these three categories. It should be pointed out, however, that projects having several objectives have been classified in each of the categories concerned. In some cases, the total sum allocated to a single project may be listed in several categories, which is why the totals of the different categories do not add up to the total amount loaned by the Bank each year.

Table VIII : Distribution of Funds in Accordance with Economic Policy Objectives

	1972		1973		1974		1975		1976	
	M.U.C.	%	M.U.C.	%	M.U.C.	%	M.U.C.	%	M.U.C.	%
Regional development	354.80	70.13	425.20	61.02	540.20	63.57	670.60	73.08	820.-	75.50
Schemes in individual sectors of industry	81.60	16.12	73.90	10.60	99.20	11.67	5.40	0.58	-	-
Joint European schemes	219.10	43.30	340.80	48.9	441.10	51.91	438.80	47.82	438.6	40.38
TOTAL	505.90	100.--	696.80	100.--	849.70	100.--	917.50	100.--	1086.-	100.--

This table only goes to confirm the prime importance attached to regional development by the EIB's loan policy. A more detailed analysis of the regions receiving the loans will have to be made if parallels are to be drawn with the regional aspect of other financial instruments' policies.

The percentage spent on loans for joint schemes has dropped these last two years, though there has been no drop in absolute terms. Most of these loans are spent on the energy sector (77 % in 1975 and 85.8 % in 1976). The two major objectives pursued by the EIB in its loan policy are thus :

1. Greater self-sufficiency for the Community in the energy sector, and

2. Development of regions.

The second of these two points is vital for the Community's equilibrium and is therefore the prime target of the financial instruments' activities. Hence, the need for a regional analysis of the Bank's activities. The simplest way to do this is to take each country in turn.

a) <u>Belgium</u>

It is impossible to assess the regional impact of the Bank's activities in Belgium because only one regional loan has been granted in this country in the last five years. Since this was also global loan granted to the National Company for Industrial Credit for the financing of "small and medium-sized industrial schemes in development and redevelopment areas" (3), no conclusion of any value can be drawn.

(3) Annual Report 1976, p. 56

b) Denmark

Of the 53.2 MUA in loans granted to Denmark, 35.8 MUA (12 loans) are to be considered as regional development loans. This figure includes three global loans worth a total of 9.8 MUA. Of the remaining 26 MUA, 12.7 MUA have been for infrastructure investments (energy, port installations and telecommunications) in Greenland, which is one of the Community's priority regional development areas. North of Jutland, another region requiring development because of its deep-rooted structural and employment problems, has received three loans amounting to 5.7 MUA in all. These loans have been for the shipbuilding industry and for a factory building engines. The three other loans, which are of the industrial type, have been the islands of Lolland, Fünen and Zealand respectively.

c) Germany

Germany has received loans to the value of 541.8 MUA these last five years. Nineteen of these loans, worth 170.8 MUA, are considered to have been for regional development and represent 31.52 % of the total - a figure which is well below the Community average. According to the EIB (4), this figure is due to the fact that Germany has no regions in real need of development but only localized cases of underdevelopment.

(4) European Investment Bank 1958 - 1968, p. 39

"Although most of the German Länder have a revenue close to or even above the Community average, certain areas of the Federal Republic are faced with the types of problems confronting less-favoured regions. Some of these difficulties have been created or aggravated by the fact that the Federal Republic of Germany's eastern frontier represents the demarcation line between East and West Germany. Elsewhere difficulties are due to localized, relative regional underdevelopment."

This interpretation of the situation has been confirmed by the pattern of EIB loans to Germany over the last five years. During this period 15 loans, totalling 149.5 million u.a., have been made available for projects in West Berlin (1) and the states of Schleswig-Holstein (4), Lower Saxony (5) and Bavaria (5). It would not be true to say however, that all of these projects are situated in frontier towns and cities. To the abovementioned 15 loans must be added 3 loans for industrial projects in the Saarland which is also affected by the problems of the iron and steel industry (one of these latter loans has been granted towards the cost of structural improvements to a steel works). A global loan has also been made available to the Industriekreditbank to finance smaller projects in development areas.

15 of the 19 loans made available have been allocated to industrial projects which indicates the high level of development of the areas concerned. In the majority of cases the existing infrastructure matches up to the needs of the areas.

d) France

Over the last five years France has received loans totalling 747.1 million u.a. Of this total sum 60.44 % (451.6 million u.a.) has been used to finance regional development. Twenty-eight projects have received assistance, this includes three global loans (totalling 60.3 million u.a.) made available to development areas without specifying the use to be made of the loans. Regional development loans are spread over much broader areas in France than in the other Member States in which the development areas can be pinpointed with much greater accuracy. It is, however, a fact that 61.76 % of the total mount loaned to France has been made available to just four areas, namely Aquitaine (97.2 million u.a. for 4 projects), Rhône-Alpes (74 million u.a. for 5 projects), Auvergne (53.7 million u.a. for 2 projects) and Brittany (48 million u.a. for 5 projects). Indeed, it may be said that 80 % of the total amount loaned to France has been allocated to Brittany and the southern Loire area.

The way in which the loans are allocated amongst the various sectors is very significant. 44.26 % of the regional development projects benefitting from EIB loans concern improvements in telecommunications (8 projects accounting for 199.9 million u.a.), and 24.16 % of the projects are concerned with improvements to communications networks (road, rail and air) (6 projects accounting for 109.2 million u.a.). 11 of these projects are situated in the abovementioned areas.

It may therefore be concluded that EIB loans to France are spread over a wide area of the country and that a very considerable proportion of these loans goes towards infrastructure improvements. (It should be noted at this point that investments in the energy field which are regarded as infrastructure investments have not been included in the category of regional development projects).

e) Ireland

The way in which the Bank of Ireland allocates loans to the different regions is not very important to the current study as the whole of Ireland is considered as a development area from a Community point of view. Since its accession to the Community Ireland has received 15 loans totalling 164.1 million u.a.

The loans granted to Ireland have been allocated as follows: 53.13 % to improvements in telecommunications, 4.57 % to improvements in the transport system, and 42.29 % to industrial investments.

f) Italy

Over the last five years Italy has been granted loans totalling 1441 million u.a., 1144.4 million u.a. of which has taken the form of 83 regional development loans. 94.87 % of the total amount loaned has been allocated to investments in the Mezzogiorno (Southern Italy), which is regarded as one single development area for Community purposes. In accordance with general

Community policy the EIB has devoted a considerable part of its work to assisting Italy and, in particular, the Mezzogiorno. The Mezzogiorno is taken to include Sicily and Sardinia.

A high proportion of the loans granted to Italy have taken the form of indirect loans and global loans, which indicates the important role played by financial bodies and regional organizations. Italy has received 49 indirect loans totalling 407.2 million u.a. and 11 global loans totalling 156.3 million u.a. Global loans and indirect loans together account for a total of 563.5 million u.a. which represents 39.1 % of the total amount loaned to Italy. This percentage is much higher than the Community average. The links between the EIB and bodies submitting projects are, however, not as highly structured as the above figures might suggest.

Although indirect loans and global loans do account for a higher proportion of the total loans than the Community average, it should be borne in mind that Italy has a large number of financial and regional bodies which serve as intermediaries for loans. The 11 global loans were thus granted to 7 different institutions. There were also several other insitutions involved only in the granting of indirect loans. It should therefore be noted that several financial institutions cover the same geographical area, which could detract from the coordinating effect of the global and indirect loans (5). It must further be pointed out that some of these institutions also received aid from other financial instruments, notably the Social Fund (e.g. Cassa per il Mezzogiorno, ENI).

It is calculated that, after deduction of the global loans, 56.7 % of the funds lent for regional development was allocated to infrastructure investments broken down as follows:

Telecommunications : 26.41 %
Road and port infrastructure : 11.59 %
Water supply : 8.41 %.

The large share taken by infrastructure investments is hardly surprising here, since, as has already been stated, an adequate infrastructure is an essential precondition of industrial development.

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(5) The intermediaries for the global loans are : IMI (Istituto Mobiliare Italiano), CIS (Credito Industriale Sardo), ISVEIMER (l'Istituto per lo Sviluppo Economico dell'Italia Meriodionale), IRFIS (l'Istituto Regionale per il Finanziamento alle Industria in Sicilia), BNL (la Banca Nazionale del Lavoro), ICIPU (Istituto di Credito per le Imprese di Pubblica Utilita) and Mediocredito per le Piccole e Medie Imprese del Friuli-Venezia-Giulia.

g) The Netherlands

Over the past five years only one loan has been granted for a project in the Netherlands (construction of a power station). No conclusion can therefore be drawn as to the regional impact of the EIB's policy as far as the Netherlands is concerned. (The same applies to Luxembourg, where no investments were made during the past five years).

h) The United Kingdom

From 1973 to 1976 the UK received loans totalling 968.7 MUA. Thirty-eight loans aggregating 796.2 MUA (or 82.19 % of the total sum lent) were considered to be for regional development. Included in this figure are two global loans of 7.1 and 18.7 MUA respectively.

The regional distribution of the loans is highly significant. The North of England, Scotland and Wales together account for 75.87 % of the funds lent. Scotland alone received 31.78 %. This concentration on the underdeveloped north of the UK and on Wales is in keeping with Community's regional policy aims. The regional emphasis is more in evidence here than in other countries such as France and the Federal Republic of Germany.

Excluding the two global loans, the breakdown per sector shows that over 45 % of the funds were lent for investments in energy production and distribution (particularly oil). This high figure reflects the UK's effort in this field, the development of energy resources being at present one of the UK's prime economic objectives. The other investments in infrastructure accordingly represent only 20 % of the regional development investments, while industrial investments account for about 33 %.

i) The analysis given above will enable the EIB's regional development policy to be compared with that of the Community's other financial instruments. It will also make it possible to give attention to the sectoral priorities in the various countries.

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Documentation on

ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS

1972 - 1976

- The European Regional Development Fund (ERDF)

Chapter II

The European Regional Development Fund (ERDF)

THE EUROPEAN REGIONAL DEVELOPMENT FUND (ERDF)

A. INTRODUCTION

The ERDF was set up by Council Regulation (EEC) No. 724/75 of 18 March 1975 (OJ No. L 73 of 21 March 1975) following a request made by the heads of state and government at the Paris conference in October 1972 and repeated at the Copenhagen conference in December 1973.

The purpose of the ERDF is described as follows in Article 1 of the Regulation:

"(The Fund) is intended to correct the principal regional imbalances within the Community resulting in particular from agricultural preponderance, industrial change and structural under-employment."

More details are given in later articles, where the Fund's operations for 1975, 1976 and 1977 are organized quite strictly. The procedures for granting aid are covered, and the budget of 1,300,000,000 u.a. for the first three years is split up as follows:

300,000,000 u.a. for 1975,
500,000,000 u.a. for 1976,
500,000,000 u.a. for 1977.

The Regulation also makes the Commission responsible for submitting new proposals for organising the ERDF after its first three years of operation.

B. CONDITIONS FOR OBTAINING ERDF AID

Investments must comply with the following conditions :

1. Location (Article 3(1))

   To obtain ERDF backing, investments must be in aided areas established by Member States in applying their own systems of regional aid.

2. Complementarity with National Measures (Article 4)

   ERDF money can only be used if an investment project already receives aid from the government concerned.

3. Extent (Article 4(1))

   An investment must exceed 50,000 u.a.

4. Permissible Investments (Article 4(1))

   Three types of investment projects are eligible for ERDF financing:

   a) Investments in industrial, handicraft or service activities which are economically sound, provided that:

      1) at least 10 new jobs are created, and
      2) the investments fall within the framework of a conversion or restructuring plan to ensure that the undertaking concerned is competitive.

      Service activities must, in addition, have a direct impact on the development of the region and on the level of employment and must either be concerned with tourism or have a choice of location.

b) Investments in infrastructures directly linked with the development of activities covered by a) above and financed wholly or in part by a public authority or other body responsible on a similar basis as a public authority for the creation of infrastructures.

c) Investments in infrastructures covered in Article 3(2) of the Council Directive on mountain and hill farming and farming in certain less-favoured areas (e.g. access roads, electricity, drinking water, purification of water in tourist or leisure areas).

Article 1 also allows the Fund to partially finance surveys which are closely connected with its operations.

5. Regional Development Programmes

Under Article 6, investments must be part of one of the regional development programmes that the Member States had to submit to the Commission before the end of 1977 and which, when implemented, would "contribute to the correction of the main regional imbalances within the Community which are likely to prejudice the attainment of economic and monetary union."

C. AMOUNT OF THE FUND'S CONTRIBUTION

a) 20 % of the cost of investments covered under B. 4 a), without exceeding:
   - 50 % of the amount put in by the State concerned,
   - 100,000 u.a. per job created, or
   - 50,000 u.a. per job maintained.

b) As regards investments covered under B.4 b) and c) :

   1. 30 % of the expenditure incurred by public authorities when the investment is less than 10 million u.a.

   2. 10 % to 30 % of such expenditure for investments of 10 million u.a. or more, or

c) 50 % of the cost of surveys.

It should be added that for investments mentioned in point b) the Fund can be used to grant a rebate of three percentage points on loans made by the EIB under Treaty Article 130 (a) and (b) for projects in a State-aided region.

D. PROCEDURE FOR GRANTING ERDF AID

Under Regulation No. 724/75 there are two procedures, depending on whether the investments involved are more or less than 10 million units of account. But both procedures have one point in common, namely that requests for aid from the Fund must be submitted to the Commission by the Member States. These requests must contain all the information the Commission needs to assess each project and judge whether it complies with the Fund's aims and principles.

Article 5 of the Regulation lists some of the factors the Commission has to take into account (the regional, economic and social impact of a project and its compliance with national and Community policies).

a) Investments below 10 million u.a.

1. The Member State concerned presents its total requests to the Commission at the beginning of each quarter, grouping its requests by region and separating investments in infrastructure from other investments (Article 7 (2));

2. The Commission prepares draft decisions on overall requests (and not investment by investment) (Article 7 (4a));

3. The draft decisions are submitted to the Fund Committee, which is made up of representatives of the Member States and chaired by a representative of the Commission (Articles 11 and 12);

4. The Commission's decisions are applicable immediately. But if they are not the same as the view expressed by the Committee, they are communicated to the Council. The Commission then puts off applying these decisions by two months or more, during which the Council may take a different decision by a qualified majority.

b) Investments above 10 million u.a.

Article 7(5) states that "Member States shall give priority to the presentation of requests for contributions towards investments of ten million units of account or more."

1. The Member State concerned presents separate requests for each investment and provides appropriate information on the type of investment concerned (Article 7(3));

2. The Commission decides on each request case by case (Article 7(5));

3. For investments of more than 10 million u.a. in infrastructure, the Commission consults the Committee for Regional Policy (Article 5(2));

4. It then consults the Fund Committee (Article 12(2));

5. The Commission decides case by case. The application of decisions may be postponed if the Committee expresses a dissenting view. The Council may take a dissenting decision by a qualified majority within two months, as it can for other investments.

E. AID PAYMENT, MONITORING AND POSSIBLE SANCTIONS

1. Aid is paid out after expenses have been incurred. The Member State concerned has to submit quarterly statements certifying expenditure (Article 8(1)). If the request for payment is made after completion of the investment, the quarterly statement must certify that the investment has been made (Article 8(2)) and mention what payments have been made.

2. Article 9 of the Regulation provides for the possibility of monitoring aid (according to the 2nd Annual Report, 131 such checks have been carried out since the ERDF was set up).

   The Member States must first of all provide the Commission with "all information required for the effective operation of the Fund" and take the steps necessary to help the Commission carry out checks. Under Article 9(3) checks on operations financed by the Fund are carried out at the Commission's request and with the agreement of the Member State concerned. Checks are carried out by the authorities in the Member States, but Commission officials may take part.

3. If an investment is not made as planned or does not comply with Regulation No. 724/75, aid from the Fund may be reduced or cut off by the Commission after an opinion from the Fund Committee. The Member States then have 12 months to pay back the sums disbursed.

F. ACTIVITIES OF THE ERDF

1977 is the ERDF's third year of operation. So far, two Annual Reports on the Fund's activities have been published. After two years, it is too soon to detect any real trend in ERDF policy but it is possible to measure how much the ERDF has fulfilled the objectives assigned to it in the Regulation that set it up.

1. Aid Requests and Decisions

a) It is of little use to compare requests for aid in 1975 and 1976 because in 1975, when the Fund was set up, requests were only submitted from the second half of the year onward.

1975	242 requests	1521 projects
1976	389 requests	2112 projects

A number of applications cover several projects, amounting to less than 10,000,000 u.a.

Table I - Aid Applications, By Types of Investment

INVESTMENT TYPE	AMOUNT OF INVESTMENT			
	1975		1976	
	mua	%	mua	%
1. Industry and services (≫ 10 mua)	885.61	28	1496.34	28
2. Industry and services (< 10 mua)	965.19	30	913.14	17
3. 1. + 2.	1850.80	58	2409.48	45
4. Infrastructures (≫ 10 mua)	712.11	22	2023.61	38
5. Infrastructures (< 10 mua)	559.71	18	767.17	14
6. Infrastructures in hill-farming areas	74.12	2	142.19	3
7. 4. + 5. + 6.	1345.94	42	2932.97	55
8. 1. + 4.	1597.72	50	3519.95	66
9. 2. + 5.	1524.90	48	1680.31	31
10. 3. + 7.	3196.74	100	5342.45	100

Nothing can be learned from the sector breakdown (industry and services/infrastructures) since the distribution has changed diametrically from year to year (mainly due to changes in regional policy in Italy). The infrastructure predominance of 1976 conforms to the trend noted for the other financing instruments (e.g. EIB).

A breakdown of investments by size shows that projects involving more than 10,000,000 u.a. receive a disproportionately large share in both absolute and relative terms. This is in line with the priority laid down by the relevant Regulation.

b) In 1975, 179 of 242 applications were successful (i.e. 1183 projects out of 1521, or 77 %). In 1977, 307 applications out of 389 were successful (1545 projects of the 2112 submitted, or 73 %). The following table explains the main reasons for rejections. The third column for each year gives the ratio between applications made and the quota assigned to each Member State by the Regulation setting up the ERDF.

Table II - APPLICATIONS, APPROVALS AND NATIONAL QUOTAS

	1 9 7 5			1 9 7 6		
	Appli-cations	Approv-ed	Appli-cations / Appro-vals	Appli-cations	Approv-ed	Appli-cations / Approv-ed
BELGIUM	36	36	90 %	28	28	92 %
DENMARK	36	34	102.5 %	47	42	105 %
GERMANY	92	64	70 %	228	196	69 %
FRANCE	282	232	129 %	365	209	143 %
IRELAND	123	105	133 %	116	89	143 %
ITALY	241	174	131 %	449	282	118 %
LUXEM-BOURG	1	1	-	-	-	-
NETHER-LANDS	3	3	110 %	9	8	124 %
UNITED KINGDOM	707	534	129 %	870	691	112 %
TOTAL	1521	1183	-	2112	1545	-

The project submitted by Luxembourg in 1975 used up that country's quota for 1975 and 1976. All the countries (except Germany) who had applications turned down had applied for sums exceeding their quotas, so the Commission had no choice. Germany is a special case; when ERDF came into effect, the civil servants of the member countries had to familiarize themselves with its machinery; in addition, a number of problems cropped up which were not envisaged in the ERDF

Regulation. The 1976 report states that the Fund Committee has not yet fixed the criteria for the eligibility of tourist industry projects. In addition, some projects did not satisfy all the requirements laid down by the Fund Regulation (e.g. minimum investment of 50,000 u.a., creation of at least 10 jobs). Finally, some of the projects not financed are not turned down, but simply carried over to the following year.

2. ERDF Activities By Sectors

Table III - Assistance Granted, By Investment Category

ASSISTANCE GRANTED, BY INVESTMENT CATEGORY	1975				1976			
	Investments receiving assistance		Assistance granted		Investments receiving assistance		Assistance granted	
	mua	%	mua	%	mua	%	mua	%
1. Industry and services (≥ 10 mua)	586.0	24.15	53.9	18	1287.25	27.2	55.16	11
2. Industry and services (< 10 mua)	814.9	33.58	65.9	22	826.31	17.46	69.40	13.9
3. 1 + 2	1400.9	57.73	119.8	40	2113.56	44.66	124.56	25
4. Infrastructures (≥ 10 mua)	591.8	24.39	76.2	25.4	1845.04	38.99	209.74	41.9
5. Infrastructures (< 10 mua)	371.1	15.29	89.1	29.7	680.99	14.39	141.32	28.3
6. Infrastructures in hill-farming areas	62.6	2.57	14.7	4.9	92.14	1.94	24.42	4.9
7. 4 + 5 + 6	1025.5	42.26	180.0	60	2618.77	55.34	375.48	75
8. 1 + 4	1177.8	48.54	130.1	43.4	3132.29	66.19	264.90	53
9. 2 + 5	1186.0	48.87	155.0	51.7	1507.3	31.85	210.72	42
10. 3 + 7	2426.4	100	299.8	100	4731.73	100	500.04	100

A comparison of Table III and Table II (applications) reveals major disparities. In its 1976 report, the Commission made three comments on this question, and more broadly (page 17 § 28):

1. The difference between proportions in the application and assistance-granted tables is attributable to the fact that in the case of industry/service investments the Fund cannot contribute more than 20 %, while the corresponding percentage for infrastructure investments is 30 %.

2. The increase in infrastructure investment is attributable to the recession, which has damped the propensity to invest in the industrial sector (1).

3. The share of investments exceeding 10 mua has increased, in line with the priority fixed by the Fund Regulation (2).

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(1) This increase is also attributable to the fact that assistance for infrastructure investment projects rose from 63.81 mua to 170.22 mua, or more than one third of the ERDF appropriation for 1976. This is due to the revamping of the Italian regional policy, with the emphasis now being put on infrastructure investment.

(2) This is only valid for Italy. Excluding Italy, Fund assistance broke down as follows:

Investments $\geq$ 10 mua : 39.07 %
Investments $<$ 10 mua : 57.91 %.

The tendency for the other eight member countries is thus for an increase in the share going to small projects; this tendency is contrary to the priority laid down by the ERDF Regulation.

In a more detailed analysis, the distinction should be retained between projects involving more and less than 10 mua. Aided projects involving more than 10 mua have mainly been in the metal production and initial processing sector (34.38 %), the chemical industry (18.48 %), the car industry (13.55 %), the food industry including beverages and tobacco (9.76 %), electrical engineering and electronics (7.75 %) and the textile industry (6.39 %). Together, these six sectors account for more than 90 % of the aided projects. The figures for projects costing less than 10 mua are less significant, since the amorphous "industry and sundry services" category accounts for 43.20 %. Apart from this category, in 1975 and 1976 the bulk of aided projects were in the electrical engineering (16.53 %), metal products (10.63 %), mechanical engineering (9.95 %) and food sectors (6.46 %).

Only a small number of service-sector projects received support. The Commission puts forward two reasons in the 1975 annual report:

1. The difficulty of finding projects large enough to justify intervention by the Fund;

2. Difficulty of implementing projects creating a sufficient number of jobs.

A detailed analysis by type of infrastructure is impossible, since the Commission only mentions the number of projects and not their size.

3. Job Impact of ERDF Activities

1. It is difficult to estimate the near-term impact of ERDF contributions on employment. The Fund has only been operational for three years, so a long-run evaluation is obviously impossible. The nature of the investment projects part-financed by the ERDF explains this difficulty. Infrastructure investments, which receive the bulk of ERDF assistance, do not create permanent jobs directly though they create employment in the building and public works sectors. Infrastructure investments are mainly designed to generate employment in the long-term, by attracting new industries and services. Accordingly, the Commission provides no data on the employment impact of infrastructure investments part-financed by the Fund.

2. According to the Commission (annual reports of 1975 and 1976), ERDF-assisted projects in the industry and services sector were expected to create

   - 60,000 jobs in 1975
   - 55,000 jobs in 1976.

   These figures should be evaluated in conjunction with the total investment receiving ERDF assistance and the amount of that assistance.

Table IV : Cost of Jobs created by ERDF-Assisted Investment

	1975	1976
INFRASTRUCTURES		
1. Aided investments	1025.5 mua	2618.17 mua
2. Assistance provided	180.0 mua	375.48 mua
INDUSTRY AND SERVICES		
1. Aided investments	1400.9 mua	2113.56 mua
2. Assistance provided	119.8 mua	124.56 mua
3. Jobs created	60.000	55.000
4. Average cost of job created (ratio of 1 to 3) =	23.348 mua	38.428 mua

In 1975 ERDF provided 8.55 % of the total cost of aided industrial investments, and 5.89 % in 1976. This puts the ERDF contribution to job creation in perspective. It is fair to ask whether a contribution of 5.89 % can be a real incentive to invest.

The average cost of the jobs created seems to be very high, though it is no smaller than that of jobs created by investments helped by other Community financial instruments.

It will be noted that the average cost was much higher in 1976 than in 1975. The Commission (Annual Report for 1976, p. 20, § 33) says this is because a bigger proportion of grants went to large projects in 1976. It appears - and this is confirmed by the figures for other financial instruments - that fewer jobs are created by large than by smaller projects, the latter being more labour intensive. The fact that smooth regional development needs investment in both infrastructures and in "industry and services". Similarly, it would be wrong to help only small projects. Large projects, apart from their impact on employment, make for growth by their spin-off effects. Here again, the need for a mix of investments, in terms of both sectors and size, is clearly revealed.

4. Regional impact of ERDF activities

As in the case of the European Investment Bank, the simplest method is to consider the impact in each member country. Here again, it is impossible to identify the impact precisely, since the documents used do not give the amounts allotted to individual projects.

Table V : Distribution of Grants by Country

	1975								1976							
	Industry, crafts, services		Infra-structures		Hill-farming area infrastruct.		TOTAL		Industry, crafts, services		Infra-structures		Hill-farming area infrastruct.		TOTAL	
	mua	%	mua	%	mua	%	mua	%	mua	%	mua	%	mua	%	mua	%
BELGIUM	0,89	0,29	3,15	1,05	-	-	4,04	1,34	1,43	0,28	5,24	1,04	-	-	6,67	1,33
DENMARK	0,62	0,20	3,25	1,08	-	-	3,87	1,29	0,57	0,11	5,85	1,17	-	-	6,42	1,28
GERMANY	3,42	1,14	6,09	2,03	-	-	9,51	3,17	8,07	1,61	11,80	2,36	-	-	19,87	3,97
FRANCE	18,77	6,25	23,37	7,79	3,88	1,29	46,02	15,34	25,20	5,04	51,27	10,25	-	-	76,47	15,29
IRELAND	13,23	4,41	6,68	2,22	-	-	19,91	6,63	12,73	2,54	16,69	3,33	5,07	1,01	34,49	6,89
ITALY	53,64	17,88	63,81	21,27	6,58	2,19	124,03	41,36	18,50	3,70	170,22	34,04	15,50	3,10	204,22	40,84
LUXEMBOURG	-	-	0,75	0,25	-	-	0,75	0,25	-	-	-	-	-	-	-	-
NETHERLANDS	-	-	5,58	1,86	-	-	5,58	1,86	-	-	10,00	2,00	-	-	10,00	2,00
UNITED KINGDOM	29,32	9,77	52,59	17,53	4,24	1,41	86,15	28,73	58,05	11,61	79,97	15,99	3,84	0,76	141,86	28,37
TOTAL	119,89	39,98	165,29	55,12	14,70	4,90	299,86	100,00	124,55	24,91	351,04	70,20	24,41	4,88	500,00	100,00

The quotas allotted by the ERDF Regulation are:

Belgium	1.5 %
Denmark	1.3 %
France	15.0 %
Ireland	6.0 %
Italy	40.0 %
Luxembourg	0.25 %
Netherlands	1.7 %
Germany	6.4 %
United Kingdom	28.0 %

These quotas are overall figures for the first three years. Consequently, they did not have to be strictly respected in the first two years. In view of the stipulation that they must be met for the first three years as a whole, adjustments had to be made in 1977. This system involves a number of problems and constraints. It made the following distribution of appropriations necessary in 1977:

Belgium	8.79 mua	or	1.75 %	Total appropriation of 500.14 mua
Denmark	6.61 mua	or	1.32 %	
Germany	53.82 mua	or	10.76 %	
France	72.51 mua	or	14.49 %	
Ireland	23.60 mua	or	4.71 %	
Italy	191.75 mua	or	38.33 %	
Luxembourg	0.55 mua	or	0.10 %	
Netherlands	6.52 mua	or	1.30 %	
United Kingdom	135.99 mua	or	27.19 %	

It can be seen that Germany will receive proportionately much less than in the previous years, when it did not take up all its quota. Conversely, a number of countries (including Italy, Ireland, France and the United Kingdom) will receive less, in both absolute and relative terms, than in 1976: Italy (-12.47 mua), Ireland (-10.89 mua), France (-3.96 mua) and United Kingdom (-5.87 mua). In other words, the countries generally considered to have the worst regional problems will receive less in 1977 than in 1976, at a time when purchasing power is being eroded by inflation. The quota system, based on three-yearly establishment of the ERDF budget without adjustment or indexation, seems to have a number of shortcomings. The hors-quota section proposed by the Commission (cf. infra) would reduce or even eliminate these shortcomings.

A very general picture of the needs of the member countries and the priorities they want is given by a comparison of the sums devoted to investment in (i) infrastructure and (ii) industry and services.

Table VI : Country-by-Country Breakdown of Various Categories of Investment

	1 9 7 5				1 9 7 6			
	Industry, crafts, services	Infra-structures	Infrastructures in hill areas	TOTAL	Industry, crafts, services	Infra-structures	Infrastructures in hill areas	TOTAL
	%	%	%	%	%	%	%	%
BELGIUM	22,02	77,97	-	100	21,43	78,56	-	100
DENMARK	16,02	83,97	-	100	8,87	91,12	-	100
GERMANY	35,96	64,03	-	100	40,61	59,38	-	100
FRANCE	40,78	50,78	8,43	100	32,95	67,04	-	100
IRELAND	66,44	33,55	-	100	36,90	48,39	14,69	100
ITALY	43,24	51,44	5,30	100	9,05	83,35	7,58	100
LUXEMBOURG	-	100	-	100	-	-	-	100
NETHERLANDS	-	100	-	100	-	100	-	100
UNITED KINGDOM	34,03	61,04	4,92	100	40,92	56,37	2,70	100
TOTAL	39,98	55,12	4,90	100	24,91	70,20	4,88	100

This table calls for some comments:

It is generally recognized that, in the regional development context, adequate infrastructures are a pre-requisite for industrial investment in a region. It is therefore to be expected that those countries with the most serious regional development problems would receive above-average aid for infrastructure projects. It is however a fact that the three member states with below-average infrastructures, i.e. Ireland, Italy and France received lower than average infrastructure aid. This is all the more surprising in view of the fact that aid for industrial investment has a 20 % ceiling as against a 30 % ceiling for infrastructure investment. The Commission has not provided any explanation for this. Nevertheless the 1975 Annual Report (p.15 para. 36) says that pending the outcome of the Regional Policy Committee's discussions on infrastructures, examination of certain infrastructure projects is blocked. An examination of the list of projects which were turned down for aid in 1975 reveals that in the case of Italy, Ireland and France the number of infrastructure projects not examined is only slightly higher (1 or 2 units generally) than the number of industrial projects. The gap is much larger in the case of the United Kingdom (55 industrial projects as against 115 infrastructure projects); nevertheless the UK received above average aid for infrastructures.

On the basis of the figures provided by the Commission it is difficult to explain this state of affairs.

Nevertheless we can put forward some hypotheses: slowness of regional and national authorities in drawing up infrastructure projects, preference granted by these bodies to other financial instruments, preference granted by the states concerned to industrial investment because of its more rapid impact on employment.

The same comment applies for 1976 as regards France, Ireland and the United Kingdom. The figures for this year are however less significant because the picture is somewhat distorted by the high proportion of aid devoted to infrastructure projects in Italy. In this connection, we should note the very steep fall, in relative terms, of industrial investments in Italy from one year to the next. This is due to the fact that the new Italian Government guidelines stress the development of infrastructures in the Mezzogiorno (1977 summary of annual information, page 29).

a) Belgium

Belgium is a special case as regards the rules for determining national aid zones which delimit the scope of the ERDF. The economic development regions were determined by the law on economic expansion of 30 December 1970. The Commission considered that the zones contained regions which had been underdeveloped but whose situation had been improved subsequently with the result that regional aids were no longer justified. The Belgian Government proposed new zones covering almost the entire country. On 26 April 1972 (OJ L 105 of 4.5.1972, page 13) the Commission laid down the regional aid zones on the basis of its own data, the criteria contained in the Belgian law of 30.12.1970, and the situation in the other Community regions. ERDF aids are therefore restricted to 28 of the 43 Belgian administrative areas (there are no aid zones in Brabant).

Most of the aids (78 %) went to infrastructure projects. Wallonia was the only area to receive industrial project aids to the tune of 70 MUA. Nine of eleven projects in this area went to investments of less than 10 MUA. The activities in question were extremely diverse and it is difficult to deduce any general trend.

Infrastructure projects received ERDF aid to the tune of 8.39 MUA. 75 % of this went to Flanders (spread over 38 projects)and 25 % went to Wallonia (15 projects). All the infrastructure projects involved were less than 10 MUA. All but two of the projects related to the fitting out or extension of industrial areas. This embraced the construction of access roads, road works, sewerage, piped water schemes and depollution plants for the zones in question. All these investments were closely linked to industrial investments rather than public amenity investments. This illustrates the nature of the regional development problems in Belgium whose basic infrastructures are moreover satisfactory.

b) Denmark

The Danish regions eligible for ERDF aids are: Greenland and certain development zones in Southern Denmark (North Jutland, the former Thisted Amt and the island of Bornholm).

During its two years of operation, the ERDF has given Denmark aid totalling 10.29 MUA spread over 76 projects. More than three quarters of this aid went to infrastructure projects in Greenland where no industrial projects were aided. 56 of the infrastructure projects totalling 7.77 MUA were located in Greenland. Most of these aids concerned projects costing less than 10 MUA. 35 projects were devoted to the improvement of port infrastructures including various warehousing facilities. 6 projects were intended to develop airport facilities. The other projects were for improving the electricity supply system and the telecommunications network in the region. Because of its remoteness it is essential that Greenland be provided with a modern transport infrastructure which is a sine qua non for the establishment of new industry. The ERDF aids were therefore devoted to these "basic" infrastructures.

The rest of Denmark attracted ERDF aid to the tune of 2.52 MUA spread over 20 projects. 1.33 MUA were devoted to a project to improve the electricity supply network between Bornholm and Sweden. The other 19 projects were all industrial. Six of them concerned the fishing industry, the others related to the extension of a wide range of factories.

The regional development areas in Denmark have widely differing problems. Greenland is still underdeveloped because of its remoteness and climate. As a result it has not yet got the ports, airports or electricity networks which are a pre-requisite for development; on the other hand the other Danish regions have structural problems and these have created employment problems which make it necessary to boost industrial investment in these regions.

c) <u>Germany</u>

The regional aid zones are scattered throughout the Federal Republic for which ERDF aid in the first two years totalled 29.38 MUA spread over 260 projects. While the majority (148) went to industrial projects more funds were devoted to infrastructure projects (17.89 MUA) than to industrial activities (11.49 MUA). This may be due to the fact that, as previously pointed out, ERDF aid cannot exceed 20 % for an industrial investment but can be as much as 30 % for an infrastructure project. As regards the size of the projects aided, only eight related to investments exceeding 10 MUA. ERDF aid to these totalled 6.3 MUA. The fact that the remaining 23.08 were spread over 252 projects illustrates the extent to which ERDF aid is dissipated.
In addition, ERDF aid accounted for only 4.3 % of the total cost of small industrial investments. On the other hand the

ERDF financed some 21 % of the small infrastructure projects. The smallness of the figure for industrial projects raises the question of the effectiveness of ERDF aid in backing up investments mainly in Member States where regional development problems are less pronounced than in other Member States. A sectoral breakdown of industrial investments shows that they were concentrated in certain areas:

e.g.: Hesse: extensions of wood-working industries (4 projects);

Rheinland-Palatinate: extension of the metal-working and engineering industries;

Bavaria: extension of the wood-working industry.

The projects most frequently relate to processing industries (wood, metal) or the manufacture of finished products (textiles, machinery, electronic equipment, precision tools).

84 of the 112 infrastructure investment projects related to the organisation of industrial sites or the equipping of industrial zones. All these projects concern schemes which are closely linked to industrial investment rather than public amenity investments, in the accepted sense of the word. Bavaria has moreover received aid for six vocational training centre projects.

ERDF aid for Germany is geared towards industrial investments and infrastructure investments linked to industrial investments. Public amenities have attracted very little investment.

d) <u>France</u>

The priority zones in France are the West, South West, Massif Central, Corsica, the development zones in the North and East and zones spread over various regions in the overseas departments. 44 projects have received ERDF aid totalling 122.56 MUA. Some of the earlier comments apply here also. While, as in the case of Germany, the number of beneficiary industrial projects, are in relative terms, higher than the number of infrastructure projects, the total aid for the latter sector was nevertheless higher.

It should also be recalled that in France the beneficiary industrial investments are in relative terms higher than the Community average. For the purpose of allocating aid in 1976, France was divided into 24 regions, including the overseas departments. The aid granted was spread widely over the various regions. Nevertheless six regions received 68.73 % of the total aid granted to France, i.e. 84.19 MUA out of a total of 122.49 MUA. The regions concerned are Brittany (25.67 %), the Auvergne (12.93 %), Pays de la Loire (8.57 %), Aquitaine (7.54 %), Lorraine (7.06 %) and Limousin (6.94 %). These also contain the priority regions. Corsica obtained 4.94 % of the total aid, while the overseas departments received 8.71 %.

The breakdown of industrial investment projects by size shows that 79 % of aid went to investment schemes of less than 10 MUA scattered over 290 projects. This is an average of 0.12 MUA per small industrial project. No sectoral trend can be deduced.

This also applies to the 12 investments of more than 10 MUA. Infrastructure investments are equally divided between small and large projects. 64 % of the projects concerned electricity production and the provision of tourist facilities (principally in the overseas departments). On the other hand, few of the projects relate to the equipping of industrial zones which shows that France's requirements are different from those of the countries mentioned previously (particularly Germany and Belgium). It also shows that the regional development problems are more serious than in the countries previously studied.

e) Ireland

It is impossible to analyse the ERDF appropriations for Ireland. The entire country is considered a development region and the overall application (projects $<$ 10 MUA) are not required to specify the regional location of the planned investments. As in France, the lion's share was taken up by small projects (73.58 % of the total Irish allocation). More than 47 % of this amount was spent on industrial investment projects. This is higher than the Community average. This is due to the fact that "the Irish Government has given top priority to developing the industrial and service sector... together with the basic infrastructure to support this development." This trend was borne out in the way Fund aid was allocated. Apart from the 69 industrial investment projects (which received a total of 29.26 MUA ERDF aid), many infrastructure projects are closely linked to industrial projects. 30 of the 117 infrastructure projects concern the building of advance factories. These were classified as infrastructure projects because the factories are built by the public authorities for rent or sale to private investors. These projects were also accompanied by others for purchasing sites for industrial estates. The other infrastructure projects principally concerned the expansion of the telephone network, piped water and sewerage schemes. This corresponds closely to the guidelines established by the Irish Government whose prime objective remains industrial development (and consequently the creation of jobs in this sector).

f) Italy

During the first two years of the Fund's operation, all ERDF aid went to investment projects located in the Mezzogiorno (including Sardinia and Sicily). The three main beneficiary regions were Sardinia (21.83 %), Campania (21.06 %) and Sicily (16.14 %). The regional breakdown within the Mezzogiorno requires little comment since all the constituent regions are suffering from more or less the same regional development problems.

The sectoral breakdown calls for some comments. As stated above, there was a sharp shift in emphasis from one year to the next. Aid for industrial projects slumped from 53.64 MUA to 18.50 MUA, while aid for infrastructure projects rose from 63.81 MUA to 170.22 MUA. This shift is due to the entry into force of the Italian law (law of 2.5.1976) on the financing of special aid for the Mezzogiorno from 1976 - 1980. The priorities established by this law are set out in the 1977 summary of annual information (page 29). "The Italian Government will give priority to small and medium-sized industries, to industrial zoning infrastructures and to infrastructures relating to the various productive sectors, with particular emphasis on roads." The preference given to small and medium-sized undertakings is reflected very clearly in the figures. In 1975, industrial projects of more than 10 MUA received aid of more than 31.8 MUA while small industrial projects received 21.7 MUA. In 1976 the situation was reversed. The aid granted to industrial projects slumped considerably because of the preference given to infrastructure projects. Industrial projects of less than 10 MUA received aid totalling 14.12 MUA, as against 4.39 MUA for major projects. The list of beneficiary industrial projects confirms the preference granted to small and medium-sized concerns. Most of these projects related to the setting up of firms, which by the nature of their production (e.g.:furniture, sanitary equipment, food packaging) were only on a relatively small scale.

In infrastructure projects, major projects received 87 % of the aid granted to infrastructure projects. As a result Italy was the member state which most closely respected the priority given to projects exceeding 10 MUA. 73 % of ERDF aid to Italy was spent on large scale projects, despite the preference granted to small and medium-sized concerns in the industrial sector (the share of infrastructure investments was considerably higher than that of industrial investments). The priorities on the type of infrastructure were also adhered to. 23 of the 29 major projects related to the equipping of industrial zones. One project of more than 10 MUA was also devoted to a road scheme. Road development, which is the second priority objective in the infrastructure area, received considerable aid within the framework of investment covered by Directive 75/268 on hill farming and farming in other disadvantaged areas. 229 road improvement schemes also received ERDF aid. Finally, some projects were devoted to piped water connection schemes and the installation of electricity supply networks. ERDF policy therefore stuck closely to the Italian Government's guidelines on regional development.

g) Luxembourg

The Grand Duchy received only one ERDF aid totalling 0.75 MUA towards an investment of 3.5 MUA. This project related to the construction of an artificial lake with tourist facilities (investment infrastructure of less than 10 MUA).

h) Netherlands

The Netherlands has so far received ERDF aid for 11 infrastructure projects. Three of these cost over 10 MUA and 8 cost less than 10 MUA. 7.43 MUA were granted to the Groningen region, 5.66 MUA to Limbourg and 2.49 MUA to Friesland. This conforms with the priorities laid down by the Netherlands which are interested in the development areas, the "stimuleringsgebieden" of the North and Limbourg. The projects located in Limbourg all concern road infrastructures. The projects in Friesland involve an industrial estate, a road and a port. The projects in the Groningen region involve an industrial estate near to a port, the creation of new port installations and the modernization of a water supply system.

Investments in the two regions of the North are all related to the development of industrial estates, which is not exactly the case with investments located in Limbourg.

i) <u>United Kingdom</u>

The regions receiving aid in the United Kingdom are numerous and extensive. It is not surprising then that 9 of the 11 regions in the United Kingdom have received aid from the ERDF. The only two regions not to have received aid are East Anglia and the South East, whilst the two Midlands regions have received very little aid (less than 1 %). The main beneficiary areas are the North of England (27.4 %) and Scotland (25.73 %) and to a lesser extent Northern Ireland (15.73 %) and Wales (15.32 %). These 4 regions together account for 84.20 % of all aid granted to the United Kingdom by the ERDF.

The infrastructure sector receives most of the aid (58 %) whilst investment projects of less than 10 MUA are predominant. The biggest funds go to the major projects in the industrial sector. According to the annual report for 1976, industrial development is the main object of regional policy. An analysis of ERDF aid confirms this tendency in spite of the numerical preponderance of infrastructure projects. When infrastructure investments are broken down, it is seen that most of them are linked to industrial projects or are, at least, likely to directly stimulate industrial projects. Furthermore, many infrastructure projects in the United Kingdom come under the "advance factories" programme, which means that factories are built first by the State and then leased or retroceded to private investors. More than 300 infrastructure projects, i.e. a quarter of all British projects assisted by ERDF, involve the construction of advance factories. To these must be added other projects designed to further the industrial development of the regions: the acquisition of land and development of industrial sites, the provision of infrastructures for industrial estates (road works), the improvement of derelict land, the building of access roads to industrial estates and the improvement of the sewerage systems of these industrial estates.

A very large proportion of infrastructure investment is thus directly related to industrial development. Most of the other infrastructure projects are designed to improve the road network and water supplies. It is not possible to get a clear picture of which sectors are being developed through industrial projects since investment covers such a wide field. In many cases new manufacturing industries are being set up and existing ones expanded. One aspect does stand out, however, and that is the effort to develop the hotel industry in Wales and Northern Ireland.

The line taken by the United Kingdom on regional policy is quite clear and is respected by the ERDF. Nevertheless, the very size of the assisted regions highlights the seriousness of the problems of the United Kingdom since most of its regions fall within the regional development programme.

Documentation on

<u>ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS</u>

1972 - 1976

- The European Social Fund (ESF)

CHAPTER III - THE EUROPEAN SOCIAL FUND

THE EUROPEAN SOCIAL FUND

A. INTRODUCTION

The European Social Fund was set up under Article 123 of the Treaty of Rome. The activities of the Fund were at first regulated by Articles 123 to 128 of the Treaty as well as by several implementing regulations, notably Regulation No. 9 of 25 August 1960 (OJ No. 56 of 31 August 1960).

Article 126 of the Treaty gave the Council the powers to determine what new tasks might be entrusted to the Fund when the transitional period ended. These powers were made use of and on 1 February 1971 the Council adopted a decision on the reform of the Social Fund (OJ No. L 28 of 4 February 1971, page 15). The new Social Fund operated from 1972 to 1977. In 1977 the Commission proposed, in accordance with Article 11 of the Decision of 1 February 1971, new guidelines regarding the tasks and operational procedures of the Fund (Article 11 : "The Council shall review this Decision not later than five years after the date of its entry into force as provided in Article 10(1))".

The 1971 reform was introduced to remedy the shortcomings of the Fund brought into existence by the Treaty and its implementing regulations. According to the Commission (Opinion of the Commission to the Council on the Reform of the European Social Fund (OJ No. C 131 of 13 October 1969, page 15)) the Fund had the following shortcomings :

- a lack of directness : aid was granted to Member States or bodies set up under public law and not to workers themselves or to firms.

- automatic features : the Fund automatically reimbursed expenses incurred by the Member States provided the conditions laid down in the regulations were fulfilled.

- retroactivity : the Fund was set in motion only when operations had been completed successfully and workers had been re-employed for six months.

The result was a dispersal of aid as well as red tape for Member States. For this reason the Fund aroused little interest and played only a limited role as a generator of economic growth. The reform of the Social Fund was intended to put right this state of affairs.

B. ORGANIZATION OF THE SOCIAL FUND

1. Aims of the Social Fund

These are based on Articles 3, 4 and 5 of Decision No 71/76 of the Council of 1 February 1971 on the Reform of the European Social Fund. The general task of the Fund is to assist employment, expecially when the situation is affected or in danger of being affected by factors referred to in Articles 4 and 5. These two Articles each define the various areas of intervention of the Fund.

a) Under Article 4 the Fund can take action with the aim of :
   - supporting employment measures taken by the Council within the framework of Community policies;
   - helping to improve the balance between supply of, and demand for, manpower within the Community.

Under Article 4 the Fund is authorized to intervene by a specific decision taken by the Council. Under the Council determines the areas where the Fund may intervene. Article 4(2) states that when taking such a decision the Council must state as one of the grounds of such a decision the fact that imbalance in the field of employment is on a scale justifying intervention and that a considerable number of workers need to change employment, acquire new qualifications or move their homes within the Community. In applying these principles the Council has seen to it that operations are assisted which ease the employment as well as geographical and occupational mobility of :

- persons who cease to pursue an activity directly and principally in agriculture in order to pursue non-agricultural activities either as employed persons or self-employed persons (Decision No. 72/428 of the Council of 19 December 1972; OJ No. L 291 of 28 December 1972, OJ No. L 291 of 28 December 1972, page 160)
- persons who are occupied in the textile industry (Decision No. 72/429 of the Council of 28 December 1972, page 158)
- handicapped persons (Decision No. 74/328 of the Council of 27 June 1974 OJ No. L 185 of 9 July 1974, page 22)
- migrant workers (Decision No. 74/327 of the Council of 27 June 1974; OJ No. L 185 of 9 July 1974, page 20)
- young people under 25 years of age who are unemployed or are looking for a job (Decision No 75/459 of the Council of 22 July 1975; OJ No. L 199 of 30 July 1975, page 36)
- persons who are occupied in the textile and clothing sectors (Decision No. 76/206 of the Council of 9 February 1976 OJ No. L 39 of 14 February 1976, page 39)

b) Under Article 5 the Fund can take action when the employment situation is affected in :
   - certain backward or declining regions
   - certain branches of economic activity having to adapt to technical progress

- certain groups of firms which are forced to stop, reduce or transform their activities.

The aim of such intervention must be to :
- eliminate long-term, structural unemployment and under-employment
- train a highly skilled labour force;
- ensure the integration or reintegration into employment of handicapped persons, elderly workers, women and young workers.

Scope for action is wider when it comes to helping the handicapped. Operations to help handicapped persons in fact qualify for assistance from the European Social Fund without having to be linked to the problems faced by a specific region, branch of economic activity or group of firms (Regulation (EEC) No. 2396/71 of the Council of 8 November 1971 Article 1(3) OJ No. L 249 of 10 November 1971, page 54).

Aid of this type is granted without any other intervention of the Council, which is not the case with the aid referred to in Article 4.

c) Aid from the Social Fund can be granted to help :
   - vocational training;
   - geographical mobility;
   - temporarily maintain income;
   - maintain the flow of information and offer guidance to persons looking for a job or hoping to be reemployed;
   - certain categories of underprivileged workers looking for work;
   - promote better employment possibilities in backward regions.

Only schemes falling within these areas of intervention are eligible for Social Fund aid.

2. Scope for Helping People

The aim here is decide what persons the Fund can help.

a) People who can Benefit from Fund Measures

Article 3(1) of Decision No 71/66 of the Council of 1 February 1971 stipulates that the Fund may grant assistance to members of the labour force who are to pursue activities as employed persons. In special cases to be determined by the Council, the Fund may also grant assistance to persons who are to pursue activities as self-employed persons. As far as the operations referred to in Article 5 are concerned, these special cases are spelled out in Article 1 of Regulation (EEC) No. 2398/71 of the Council of 8 November 1971 (OJ No. L 249 of 10 November 1971, page 61) which states that the assistance of the Social Fund may be granted for operations carried out for the benefit of handicapped persons or persons directly engaged in agriculture in a self-employed capacity and who intend to pursue other activities in a self-employed capacity (Article 1).

With regard to operations referred to by Article 4, the special cases should be decided by specific decisions determining the areas of intervention of the Fund. Fund aid for persons who are to pursue activities in a self-employed capacity is applicable to persons occupied in the textile and clothing sector (Decision of the Council of 9 February 1976; OJ No. L 39 of 14 February 1976, page 39) handicapped persons (Decision of the

Council of 27 June 1974; OJ No. L 185 of 9 July 1974, page 22) and for persons leaving agriculture to pursue non-agricultural activities (Decision of the Council of 19 December 1972 : OJ No. L 291 of 28 December 1972, page 158).

b) Eligibility for Fund Aid

Article 8 of the Decision of 1 February 1971 states that assistance from the Fund can be granted to public authorities, bodies governed by public law, joint social institutions entrusted with tasks in the public interest, and bodies or other entities governed by public law on condition that the public authorities guarantee the completion of such operations.

Requests for aid must be presented by the Member States who act as an intermediary between the Commission and the abovementioned bodies.

3. Extent to which the Fund can Intervene

a) Assistance from the Fund is granted at the rate of 50% of permissible expenditure in support of operations by public authorities, bodies governed by public law and joint social institutions entrusted with tasks in the public interest.

b) The Fund contributes an amount equal to any expenditure incurred by the public authorities in respect of operations by bodies or other entities governed by private law (i.e. in practice a maximum of 50% of expenditure).

These figures emerge from Article 9 of the Decision of 1 February 1971.

4. Procedure for Granting Aid from the Fund

The procedure is outlined in Articles 6 and 7 of the Regulation of 1 February 1971 and described in detail in Regulation (EEC) No. 2396/71 of the Council which implements this decision (OJ No. L 249 of 10 November 1971, page 54). As far as procedure is concerned, no distinction is made between operations falling under Article 4 or Article 5.

a) only the Member States concerned can forward applications for assistance;
b) applications for assistance must be submitted prior to the carrying out of an operation;
c) applications for assistance must be sent to the Commission and must specify for each application the legal status of the body responsible for carrying out the operations in question.
   Applications shall describe the plan of the operation and shall provide information necessary to evaluate the cost of the operation, its desirability, its compatibility with Community policies and its conformity with the conditions for granting Social Fund aid;
d) before taking a decision the Commission shall consult the European Social Fund Committee on the applications for assistance submitted for approval (Article 10 of Regulation No. 2396/71);
e) the Commission then approves applications which fulfil the conditions laid down by the regulations organizing the Social Fund insofar as credits are available. Article 9 of the Decision of 1 February 1971 in fact stipulates that "Credits for actions under Article 5 shall not in any year be less than 50% of the total credits available."
f) Assistance is paid in installments concurrently with the progressive development of the operations.

C. ACTIVITIES OF THE SOCIAL FUND

1. Financial Resources

As with the Regional Fund, a distinction needs to be drawn between "payment appropriations" and "budgetary commitments". Each year the budget of the Communities allocates to the new Social Fund the "payment appropriations" for the year to come. The amount involved is what the Fund can actually spend in the form of aid. The budget's other task is to lay down the Fund's "commitments". This enables the Fund to undertake subsequent commitments and help operations spread out over several years.

The credits allocated to the Social Fund - as figuring in the general budget of the Communities - is not an accurate reflection of the activities of the new Social Fund for some of the appropriations entered in the Fund's budget are not intended to finance the activities of the new Social Fund but to carry out commitments entered into under the old Social Fund before the 1972 reform. A distinction therefore has to be made.

In addition to financing operations under Articles 4 and 5, the Social Fund can also finance pilot schemes and preparatory studies. This right was given by the Commission in Regulation (EEC) No. 2396/71 of the Council of 8 November 1971 (OJ No. L 249 of 10 November 1971, page 54). These pilot schemes must have the following aims :

- to give guidance to the Council and the Commission in the choice of areas in which the Fund should be able to intervene;

- to enable the Member States and those responsible for operations to choose the most effective aid and to organize the implementation thereof to the best effect.

"These pilot schemes are financed by the Commission and the authorities or by the public or private bodies concerned. The contribution of the Commission may not exceed 50% of the actual cost. Credits granted to the Commission for such studies are entered under a separate heading of the Communities' budget".

Table I - "Payment appropriations" of Social Fund for years 1972 - 1976

(See next page)

Although the credits allocated to the new Social Fund have increased in absolute figures and in proportion to the overall budget of the Commission, it is nonetheless true that since 1974 the total budget of the Social Fund has not increased relative to the Commission budget. In fact it has gone down from 6.37% in 1974 to 5.92% in 1976 (for 1977 the figure is 540 MUA, i.e. 5.72% of the Commission's budget).

Authorized new commitments for the same years break down as follows :

Table II - Authorized new commitments (in MUA)

(See next page)

TABLE I - "PAYMENT APPROPRIATIONS" OF SOCIAL FUND FOR YEARS 1972 - 1976

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
New Social Fund										
Expenditure Art. 4	7.5		68.8		98.8		110.0		170.0	
Expenditure Art. 5	35.0		153.4		168.4		245.0		270.0	
Studies and Pilot Projects	0.25		0.75		0.6		0.9		1.0	
Total New Social Fund	42.75	0.98	222.95	4.40	267.8	5.20	355.9	5.77	441.0	5.92
Old Social Fund	55.0	1.27	60.0	1.18	60.0	1.16	10.2	0.16	-	
Total Social Fund	97.75	2.25	282.95	5.58	327.8	6.37	366.1	5.93	441.0	5.92
Commission Budget	4,327	100	5,068	100	5,143	100	6,166	100	7,449	100

TABLE II - AUTHORIZED NEW COMMITMENTS (IN MUA)

	1972	1973	1974	1975	1976
Art. 4 schemes	15	94	70	65	90
Art. 5 schemes	30	90	90	135	135

2. Sharing of appropriations between Operations referred to in Articles 4 and 5

Fund assistance under Article 4 is given for specific purposes "when the employment situation is affected ... by special measures adopted ... in the framework of Community policies ... or calls for specific joint action". Article 4 assistance requires a specific Council Decision authorizing aid for the purpose concerned. Under Article 5, Fund assistance may be given "where the employment situation in certain regions, in certain branches of the economy or in certain groups of undertakings is affected by difficulties which ... result indirectly from the working of the Common Market". The division of aid into two types is, according to the Commission Communication to the Council on the Review of the Rules Governing the Tasks and Operations of the European Social Fund (Doc. COM(77) 90 final, p. 2, para. 3), "the result of a political compromise reached at the time of the reform between those who wished the Fund to be simply an accompanying instrument for Community policies and those who, on the contrary, wished the Fund to constitute an aid to Member States to make up their permanenet structural deficits". The Article 4 procedure was designed to end the automatic reimbursement of Member States' expenditure on demand. Article 4 assistance is not to be directly connected with national policies but with Community policy. The types of purpose for which assistance can be given is determined by the Community authorities, in this case the Council, and not by the national authorities. In this way it has been possible to steer the Member States' employment policies in one direction. Under Article 5, the scope for Fund assistance is wider. It is intended rather to meet specific problems in the countries concerned.

The distinction between aided schemes under the two Articles is for budgetary purposes quite strict, since under Article 9 of the Decision of 1 February 1971 reforming the Fund rules that appropriations for the two Articles have to be kept separate and 50% of the appropriations in any one year must be for schemes coming under Article 5. In practice, however, the distinction is much more hazy, as is admitted by the Commission in its 3rd Report on the Operation of the New Social Fund (p. 35). The reasons for this haziness are partly to be found in the fact that the distinction is sometimes blurred by the legal instruments themselves (e.g. both Articles are invoked for schemes to help the disabled), and partly in the Member States' vocational training schemes, which often lump together groups which are not together in the Community instrument, e.g. ex-agricultural workers and redundant textile workers.

The distribution of appropriations between the two Articles is visible from the figures for the original and the final budgets for the Fund (appropriations may in the course of the year be transferred between chapters or optionally carried over from earlier years).

TABLE III - DISTRIBUTION OF APPROPRIATIONS BETWEEN ARTICLES 4 AND 5

ORIGINAL ALLOCATIONS

	1972		1973		1974		1975		1976		1977	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Art. 4	7.5	17.64	68.8	30.96	98.8	36.97	110.0	30.98	170.0	38.63	240.0	44.44
Art. 5	35.0	82.35	153.4	69.03	168.4	63.02	245.0	69.01	270.0	61.36	300.0	55.55
TOTAL	42.5	100	222.2	100	267.2	100	355.0	100	440.0	100	540.0	100

TABLE IV - DISTRIBUTION OF ALLOCATIONS BETWEEN ARTICLES 4 AND 5

FINAL ALLOCATIONS

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Art. 4	7.50	19.76	35.59	18.38	47.44	18.49	131.06	34.85	170.0	38.63
Art. 5	30.44	80.23	157.96	81.61	209.11	81.50	245.00	65.14	270.0	61.36
TOTAL	37.94	100	193.55	100	256.55	100	376.06	100	440.0	100

It will be seen that Article 4 has increased its share over the year. as the Council authorized more and more areas for assistance. The budget shares of the two Articles ought to be compared with the numbers of applications received from the Member States. Unfortunately this is only possible for the first three years of the new Fund, for which the annual Reports gave statistics on applications (The 1975 and 1976 Reports do not). In 1972, Article 4 was not yet operational since the first Council decisions authorizing Article 4 assistance for specific purposes were not taken until December that year, and therefore all applications in 1972 were for aid under Article 5. For 1973 and 1974, however, the proportions of applications for aid under the two Articles were as follows :

1973	:	Article 4	:	38.2 MUA	= 10.43%
		Article 5	:	327.9 MUA	= 89.56%
		Total	:	366.1 MUA	
1974	:	Article 4	:	53.6 MUA	= 13.12%
		Article 5	:	354.8 MUA	= 86.87%
		Total	:	408.4 MUA	

Two facts stand out here :

1. In the first three years, the total aid applied for under Article 4 was less than the original budget allocation to this Article. This situation apparently changed in the years following, according to the 1975 and 1976 annual Reports.

2. In 1973 and 1974 applications for aid under Article 4 accounted for a much smaller proportion of total applications than the proportion of funds allocated to that Article within the total funds allocation.

These facts reveal the only moderate interest shown in Article 4 schemes by Member States during the first few years of their operation.

3. Fields of Activity

The Council has authorized five areas of assistance under Article 4, namely for ex-agricultural workers, workers in the textile and clothing industries, migrant workers, young people, and the disabled or handicapped. The standard areas of assistance under Article 5 are to resolve employment problems resulting from development problems in certain regions, modernization of particular branches of industry, and changes in the activities of groups of undertakings. Article 5 may also be invoked to assist the disabled or handicapped.

Table V - Assistance from the Social Fund by area of activity

(See following page)

It should be noted that changes in the percentage shares of particular areas of activity in the table do not always indicate exactly corresponding changes in the significance of that sector of activity. This is because new sectors of activity are authorized, which alter the distribution of appropriations between the sectors. Thus a reduction in the percentage share does not necessarily mean a reduction in assistance to that sector, and conversely a considerable increase in appropriations for a sector does not necessarily show up in its percentage share.

The mixed column "Agriculture and Textiles" is due to the fact that in some cases no distinction could be made

TABLE V - SOCIAL FUND ASSISTANCE BY AREA OF ACTIVITY

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Article 4	-	-	25.3	13.9	47.0	18.5	129.9	34.9	166.7	38.2
Agriculture	-	-	21.7	11.9	26.5	10.4	33.7	9.1	31.5	7.2
Textiles	-	-	3.6	2.0	5.8	2.3	5.9	1.6	16.6	3.8
Agriculture + textiles	-	-	-	-	4.0	1.6	12.9	3.5	13.1	3.0
Migrants	-	-	-	-	8.0	3.1	23.5	6.3	21.4	4.9
Young people	-	-	-	-	-	-	35.1	9.4	67.0	15.3
Disabled	-	-	-	-	2.7	1.1	18.7	5.0	17.0	3.9
Article 5	27.9	100	156.7	86.1	207.5	81.5	241.9	65.1	269.8	61.8
Regions	17.1	61.3	109.3	60.0	157.6	61.9	206.6	55.6	229.2	52.5
Technical progress	9.0	32.2	9.0	4.9	5.3	2.1	4.5	1.2	9.5	2.2
Groups of undertakings	-	-	7.0	3.8	1.2	0.5	1.8	0.5	1.3	0.3
Disabled	1.8	6.5	31.4	17.3	43.4	17.0	29.0	7.8	29.8	6.8
TOTAL	27.9	100	182.0	100	254.5	100	371.8	100	436.5	100

between training schemes for both types of workers, where both types of schemes came under a general training programme.

One thing which is apparent from the table is that the appropriations for ex-agricultural workers have scarcely increased. However, there are difficulties of identification in this sector due to overlap with other sectors, notably regions. These will be discussed later. The Social Fund activity in this sector will also have to be examined in relation to that of the EAGGF Guidance Section.

In the textile sector, the steep rise in appropriations in 1976, due to the acute worsening of the industrys' difficulties, will be noted.

Assistance for migrant workers only started in 1974. In its 1976 Report, the Commission reported a 19 MUA increase in applications for aid under this scheme. The appropriations for the scheme fell, however. Part of the reason was probably the large increase in assistance for young people to combat rising youth unemployment. And large-scale vocational training assistance is probably needed for young people more than for any other group.

Assistance under Article 5 for backward or declining regions has steadily increased, but not as fast as Social Fund assistance as a whole (1). Total Social Fund assistance in 1976 was 239.8% up on 1973, whereas its assistance to the regions was only 209.7% up on 1973.

(1) Yet Art. 2 of Regulation No. 2396/71 reserves 60% of appropriations under Art. 5 for regional schemes.

The amount of assistance for modernization (adaptation to technical progress) has also stagnated, whilst that for groups of undertakings has steadily fallen. The assistance for disabled and handicapped persons (Articles 4 and 5) has been stable.

It may be concluded that apart from the sharp increase in assistance for young people in 1975 and 1976, no clear trend or strategy is visible in the allocation of aid. It appears that the priorities vary from year to year. This lack of an overall plan is perhaps partly due to the fact that the criteria and priorities for aid have been decided only gradually, sector by sector. In its 1973 Report, the Commission stated that Social Fund assistance should be geared to three general objectives, varying according to the type of scheme involved :

"1. the relationship of schemes for which Fund assistance is sought to the major Community policies;

2. better tailoring of specific retraining schemes to the socio-economic context in the undertaking, sector or region;

3. the stimulus given to the training scheme, in terms of scale and quality in relation to potential employment openings."

a) Persons Leaving Farming

The assistance for schemes for ex-agricultural workers is not always distinct from assistance for the regions under Article 5. Ex-farmers and farmworkers are often among workers trained under general regional schemes. Consequently, the assistance for this group is larger than the budgetary appropriations indicate. The

Commission insists on training schemes for ex-agricultural workers forming part of specific, clearly-defined programmes, which is the only way of ensuring that the schemes are linked with creation of new jobs, in the area, for the retrained workers (in the tourist and building industries, for example). Uncoordinated retraining is apt to lead to instability in unskilled occupations. Priority is given to training schemes forming part of integrated programmes which include creation of new jobs in the rural areas concerned, particularly the poorest ones. To limit the assistance to ex-farmers and farmworkers, the participants in the schemes must have left farming in the previous two years.

b) Persons working in the Textile and Clothing Industries

Behind this scheme lies the upheaval in the textile and clothing industries in the Community which are turning them from massive users of cheap labour into a high-technology industry using highly-skilled labour. This transformation makes two types of retraining schemes necessary :

- training of the skilled labour needed by industries, or rather by those sectors of them which can remain competitive;

- redeployment of the surplus manpower "with coordination of the shedding of labour by the undertakings in the textile and clothing industries with recruitment by undertakings in other industries" (1976 Report, p. 9, para. 21).

As in the agricultural sector, the Commission insists on the need - not always respected in the Member States - for comprehensive, specific programmes designed to ensure that training programmes and job creation programmes go hand in hand. Moreover, greater priority is being given to those programmes which tie in with the Community Regional Policy.

c) Migrant workers

The objectives of Community action in this area are defined in the 1974 Report :

- improvement in the conditions surrounding the movement and integration of migrant workers;
- a balanced use of manpower, taking into account the needs of both the developed and the less-favoured areas.

Within this framework, there are three different levels of operations :

- the movement of the migrant workers;
- the integration measures adopted in the host country (reception services, education);
- training of the people responsible for receiving the migrant workers and their families.

Even more so than in other areas, priority is given to integrated programmes covering all stages and aspects of migration, the ideal being to have programmes run jointly by the country of origin and the host country. Priority is given to those programmes aimed directly at making it easier for people to find jobs and to those concerned with the training of young people and the education of migrant workers' children. In view of the impact of such movements of labour on regional development, the activities of the Fund must be related to and take into account the essential requirements of the Community Regional Policy.

d) The Young

Although this is a relatively new area (Council Decision of 22 July 1975), very strict priorities have already been set for the use of the allocations. Measures to combat youth unemployment are the prime objective of the employment policies of all the Member States. For this reason, the number of applications for aid received has made it necessary to be extremely selective. This was not necessary during the first few years of the new Social Fund's existence, when the total amount of the applications for aid was well within the funds allocated for Article 4 operations. The Decision enables the Fund to intervene to help young people under 25 who are unemployed or looking for new jobs. Priority is given here to young people looking for their first job. Of the various programmes concerned with young people, priority is given to new programmes as opposed to those designed to boost existing conventional training programmes. A further priority is given to those programmes which introduce new methods to ease the transitional from school to working life. Preference is also given to those programmes which have an impact on the amount of training given rather than its content. Moreover, the Commission has tried to concentrate its aid on projects which would be unlikely to come to fruition without the intervention of the Social Fund, such as private projects and those located in less well-developed regions.

e) <u>The handicapped</u>

This area of intervention has seen an ever greater precision in the definition of the criteria and priorities for the granting of Social Fund aid. It should also be added that, whereas originally the new Fund could only intervene to assist the handicapped by virtue of Article 5, the Fund can now also intervene under Article 4, as a result of the Council Decision of 27 June 1974 (OJ no. L 185 of 9.7.74 p. 22). During the first two years (1972 and 1973), the criteria for selection were rather vague (separation of medical expenses and occupational rehabilitation, regional criterion). In 1974, when Article 4 was made applicable to measures to assist the handicapped the Commission and the Council specified the criteria and priorities for intervention under Article 4 and Article 5. The basis for restricting the area of application of measures adopted under Article 4 was the Council Resolution of 27 June 1974 setting up the first Community Action Programme for the occupational readaptation of handicapped workers (OJ No. L 80 of 9.7.74 p. 30). Consequently, action taken under Article 5 must be aimed at introducing measures for the occupational readaptation of the handicapped, while measures taken under Article 4 must be designed to improve the process of re-education.

There are two kinds of action which are eligible for Social Fund assistance under Article 4 :

- Temporary illustrative measures, designed to improve the quality of the occupational readaptation programmes available to the handicapped. Priority is given to those measures which are part of an overall programme designed to improve the readaptation of handicapped workers.

- Training programmes for the people responsible for occupational readaptation and courses for the people responsible for training the instructors. Priority is given to courses set up in regions where the training facilities are below the Community average.

Article 5 may be invoked for general programmes aimed at the occupational integration of the handicapped. Priority is given to those programmes which form part of a comprehensive process ranging from the time when the handicap is first recognized to the return of the handicapped person to open employment.

f) <u>The Regions</u>

There have been changes in, but no real clarification of, the criteria for selecting the programmes for assistance. During the first two years, statistical information (unemployment, earnings) was used to determine which regions should be given priority. In 1974, this was determined on the basis of the Commission's proposals for the European Regional Development Fund. Moreover, assistance was limited to vocational training programmes rather than to further education or general education programmes. Priority was given to applications related to vocational advancement programmes which would be unlikely to be implemented without Social Fund aid. The Commission does not specify the criteria it uses to determine what constitutes a vocational advancement programme and it admits that the criteria are vague in the 1975 Report (p. 9). In 1975 and 1976, Social Fund aid was confined to the areas covered by national aid, as defined within the framework of the Regional Fund. Among these regions, priority was given to those with the most serious problems. This is determined on the basis of the unemployment rate, average Gross Domestic Product, economic activity rate, percentage of emigration and proportion of the workforce in agriculture. Consequently, top priority was given to the Mezzogiorno, Ireland, Northern Ireland, Greenland and the overseas Departments. It was also the Social Fund's intention to promote new local and regional initiatives. While the Commission states in the 1976 Report (p. 25 § 54) that the applications received reflect the desire to diversify regional activities, it gives no indication of the criteria which enable it to determine whether the training programmes are linked with investments which will create new jobs in the short or medium term.

g) Technical progress

Within the meaning of Article 1 1(b) of Council Regulation (EEC) No. 2396/71 of 8 November 1971 (OJ No. L 249 of 10.11.71 p. 54), programmes which receive aid in this area must be aimed at "easing the adaptation to the requirements of technical progress of those sectors of the economy in which such progress entails major changes in the number of employees and their professional knowledge".

Determining the criteria for intervention raised problems until 1975, but this did not prevent the granting of 23,000 million units of account of aid. The first criterion was adopted in 1973: the application must relate to a whole sector of industry or at least a substantial part of it, in order to avoid a distortion of competition. Two further criteria were laid down in 1975: the first stipulated that technical progress should be assessed in terms of the region concerned and the characteristics of the business undertakings; the second stated that technical progress must be translated into business organization and staff qualifications.

In 1976, it was decided that priority should be given to innovating training programmes and to those which make a contribution to the solution of the most serious employment problems (such as those of the small and medium-sized companies).

h) Groups of Companies

Regulation 2396/71 deals with programmes undertaken because of major changes in the conditions of production or sale of the products of groups of companies engaged in the same or related activities which are thus forced to suspend, reduce or transform their activity definitively. There has been very little clarification of these terms. However, it has been stated that such aid cannot be granted to related companies but only to groups of autonomous companies. The Fund's intervention can only be justified where there are difficulties liable to disrupt the proper functioning of the labour market in the region where the companies are located, even if non-priority regions are involved. The Commission appears to be moving in the direction of giving priority to small and medium-sized companies.

4. Job Impact of Social Fund Measures

Social Fund aid is not intended to finance the creation of new jobs. It constitutes the Community's financial contribution to the occupational training and readaptation programmes set up in the various Member States. The purpose of the Social Fund's intervention is to reduce the gap between the supply and demand for labour by improving the workers' professional qualifications.

However, there is a relationship between the labour market and the Social Fund's activities. This is because the Fund gives priority to those training programmes which are connected with concrete, specific job creation prospects. Nevertheless, not all the projects submitted are set up with a view to the creation of new jobs.

Only approximate data are available on the number of workers who have benefitted from training programmes set up with the aid of the Social Fund. There are two reasons for this:

1. Applications for aid must be submitted before the projects are undertaken. Thus, they only give an estimate of the number of workers who will benefit from the projects.

2. Changes are often made at a later stage to the approved projects and these may affect the financial cost as well as the number of workers involved. Such changes are often followed by a reduction in the allocations.

Thus, the data provided should be taken as giving a rough idea of the situation rather than precise figures.

During the period 1973-1976, an average of 648,000 people benefitted from Social Fund intervention, and this number has gradually increased as new areas of intervention have been opened up under Article 4.

The number of workers benefitting from such aid varies greatly according to the proposed area of intervention. The differences can be explained by the nature of the operations proposed in the applications. Thus, for example, a training programme for handicapped people of necessity for the children of migrant workers. There will also be notable differences according to the scale of the programmes. Thus it is impossible to establish a close correlation between the funds allocated to each area of intervention and the number of workers involved in the various programmes. Furthermore, the programmes that have the cheapest unit cost are not always the most effective. It is the Commission's view (2nd Report for 1973, p. 33) that it is difficult to examine thoroughly the aims and methods of large-scale programmes with a low unit cost. This is because such comprehensive applications cover the total forecast expenditure of the national or regional administrations in the Fund's areas of intervention. Their major disadvantage is that they do not specify the employment opportunities, if any, that may arise from the proposed training programmes. Nor do they make it possible to determine to any precise degree what regions will benefit.

Moreover, the data they provide on their cost and the number of workers concerned are also rather vague.

It is for this reason that the Commission has stated repeatedly that it favours detailed smaller applications, submitted by employers in the public or private sectors which concern a precise training or reorganization programme with a strong job creation of job preservation bias.

The comprehensive applications still appear to be the most numerous, but the situation varies according to the area of intervention.

During the period 1973-1976, an average of 35,000 workers each year who have left the agricultural sector have been involved in projects financed by the Social Fund. As in the textile industry (17,500 beneficiaries each year on average), applications in this area have generally concerned comprehensive, non-specific operations, bringing together people from various sectors for general training programmes. Nevertheless, in addition to these, there are other applications which are more specific with regard to their outcome and the number of workers involved. Thus, a number of programmes organized on behalf of workers in the textile and clothing industries have enabled them to adapt to the technological changes which the industry is undergoing.

Half the former farmworkers who received Fund-assisted training obtained jobs in the building and metal-industry sectors. However, the Commission's report for 1976 said that the drift from the land was losing momentum, and that there was a resurgence of interest in agriculture-oriented training. This is due to employment difficulties in the industry and service sectors, which are no longer able to absorb workers from the primary sector.

From 1974 to 1976, assistance was requested for schemes potentially covering 227,000 migrant workers per annum. This figure is very high in comparison with those for other fields of intervention and the appropriations set aside for migrant workers. It is due to the nature of the schemes involved. In most cases they are not vocational training schemes but concerned with the school education of migrants' children and their adaptation - through various reception and language-teaching techniques - to the education systems of the host countries. Most applications are global, involve substantial amounts and cover large numbers of people. They relate to general measures, often undertaken within the framework of the host countries' general training policy.

The youth unemployment schemes of 1975 and 1976 were designed to cater for an average of 178.000 young people. They were mostly national-level schemes - i.e. on a large scale - and run by the national authorities. They mainly involved the extension of training centres, and incentives designed to encourage employers to retain or expand their on-the-job training facilities.

Measures relating to the handicapped differed sharply, depending on whether they came under Article 4 or Article 5. Article 4 covers experiments in training methods for the handicapped and teacher training; due to their nature, these concerned a relatively small number of people (4,510 on average per annum). Article 5 covers the training of handicapped people with a view to placing them in a normal job; a larger number of people are involved here - about 34,000 per annum from 1973 to 1976.

The regional schemes for which assistance was requested were designed to help about 278,000 people per annum. Global applications were very numerous and several were changed after submission with a resultant reduction in the sums earmarked for them.

Technological progress schemes benefitted 13,000 per annum on average. Private-sector firms submitted a larger proportion of total applications than in other fields. The proportion of applications for specific schemes was also higher.

Few applications have been made to date for groups of companies. and most concerned small and medium-sized firms. On average, schemes for which asssistance was requested helped 1,174 people on average in the years 1974 to 1976.

5. Regional Impact of Social Fund Measures

In its 1976 report (page 32, pt. 73), the Commission mentions its decision of 29 March 1977 that applications for assistance submitted in 1977 must contain the data needed to compute their regional impact. This implies that such data are not available for previous years. The Fund's annual reports of 1972, 1973, 1974 and 1975 provide no relevant figures. The same goes for the regional statistics of the Statistical Office, which provides these data for all the financial instruments except the Social Fund.

So far, the difficulty has been that many applications have been submitted by national authorities and do not provide any details about the area to which funds are allocated (eg. Social Affairs Ministry in the Netherlands, Training Services Agency in the United Kingdom, Federal Labour Institute in Germany, National Employment Office in Belgium).

However, the Commission has estimated the regional impact in 1976. It says that 72% of assistance from the Social Fund went to designated ERDF development areas. While all regional aids went to these areas, in several other fields of intervention they received markedly less than 72%.

The lowest percentage (9.4%) is the one for migrant-worker support. This is logical, since workers move from disadvantaged to prosperous regions and not vice versa.

The percentage in other areas of intervention are more difficult to justify. For instance, only 25% of technological-progress aids went to ERDF areas. Again, these areas received 28% of aids for the handicapped, and 37.5% of aids for textile workers.

In point of fact, 72% is reached only by regional aids - the percentage of ex-farmworker aids being 55% and that of young people aids being 61%. It is true that some regional schemes help people who would be eligible for assistance in other intervention fields (agriculture, textiles, youth employment, technological progress). But the fact remains that in the other intervention fields not enough is going to the ERDF areas. If we disregard regional aids, only 43% goes to schemes in the ERDF areas. Regional aids are not intended as a substitute for aids for other measures in disadvantaged areas. The Commission justifies the above figures by arguing (apart from the comment on migrant workers) that some schemes to help the handicapped (e.g. demonstration activities), although carried out outside the disadvantaged areas, led to an improvement in training levels throughout the Community.

The above comments refer only to 1976. Although it is impossible to provide a more detailed evaluation of the regional impact of Fund aid, a breakdown by member countries gives some pointers to the priorities of the member countries in the various fields of intervention.

TABLE VI - ALLOCATION OF CREDITS BETWEEN MEMBER STATES

	1972		1973		1974		1975		1976		1972 - 1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
BELGIUM	1.74	6.2	7.19	3.9	6.54	2.6	8.01	2.2	7.85	1.8	31.33	2.46
DENMARK	-	-	5.05	2.8	11.96	4.7	8.93	2.4	10.43	2.4	36.38	2.85
GERMANY	10.12	36.3	19.94	10.9	27.92	10.9	41.73	11.2	44.42	10.2	144.22	11.32
FRANCE	8.32	29.8	32.19	17.7	49.95	19.6	73.83	19.8	76.60	17.5	241.40	18.92
IRELAND	-	-	9.78	5.4	16.86	6.6	22.57	6.1	31.67	7.2	80.88	6.35
ITALY	5.77	20.7	43.69	24.0	72.33	28.4	95.53	25.7	146.46	33.5	363.78	28.57
LUXEMBOURG	0.02	0.1	0.04	0.02	0.01	0.01	0.03	0.01	0.07	0.01	0.17	0.01
NETHERLANDS	1.92	6.9	6.77	3.7	6.71	2.6	10.93	2.9	12.58	2.9	38.93	3.05
UNITED KINGDOM	-	-	57.39	31.5	62.27	24.5	110.23	29.6	106.39	24.4	336.28	26.42
TOTAL	27.89	100	132.08	100	254.58	100	371.83	100	436.47	100	1273.73	100

It will be seen that figures vary sharply from year to year - e.g. there are variations of 5 and 8 percentage points in the case of the United Kingdom and Italy. This is not attributable to changes in Community policy. Decisions to provide assistance from Social Fund resources depend on the number of applications submitted by the Member States, and the congruence of Member State policies with Community guidelines. If a new field of intervention is opened up, and a given country does not attribute priority to that field, then the share of that country is bound to fall in that field if it does not submit enough applications.

There is a parallel with the quotas fixed for the ERDF. The difference between Social Fund shares and ERDF quotas does not exceed 1.5% in the case of Belgium, Denmark, Ireland (whose share of the Social Fund is larger than its ERDF quota), Luxembourg, the Netherlands or the United Kingdom. However, all these countries (except Luxembourg) receive proportionately more from the Social Fund than from the ERDF.

The same applies, but even more so, to France and Germany. France has a 15% ERDF quota, and receives 19% of Social Fund disbursements; the corresponding figures for Germany are 6.4% and 11.3% (for the period 1972-1976).

Italy, whose ERDF quota is 40%, has received only 28.6% of Social Fund disbursements. Once again, it should be pointed out that the Social Fund cannot disburse money if Member States make no applications. But the substantial size of the disparity raises questions about the appropriateness of the eligible fields to the needs of a number of countries, and in the present case particularly those of Italy. To determine the fields in which the assistance to Italy is particularly inadequate, it suffices to compare the proportions going to the various fields of intervention in the Member States with the same figures for the Community as a whole.

TABLE VII - SUMS GOING TO THE VARIOUS INTERVENTION FIELDS IN THE INDIVIDUAL MEMBER STATES AND THE COMMUNITY AS A WHOLE (1972-1976) (%)

	BELGIUM	DENMARK	GERMANY	FRANCE	IRELAND	ITALY	LUXEMBOURG	NETHER-LANDS	UNITED KINGDOM	COMMUNITY
Agriculture	2.80	-	17.51	24.08	14.32	2.01	-	6.47	2.31	8.91
Textiles	7.82	-	5.98	1.20	2.41	1.33	-	7.50	2.40	2.51
Agric. + Textiles	-	-	-	0.71	10.63	5.39	-	-	0.01	2.35
Young people	8.71	4.01	9.60	9.57	2.71	7.41	-	2.31	9.19	8.02
Handicapped	0.64	-	16.67	0.66	3.40	1.63	17.64	-	1.15	3.02
Migrants	0.22	0.21	3.67	2.81	0.16	5.09	-	6.11	5.85	4.16
Article 4	20.26	4.22	53.43	39.03	33.66	22.88	17.64	22.39	20.92	28.99
Regions	59.51	40.50	30.45	39.61	48.49	70.35	5.88	45.08	69.70	56.56
Technol. Advance	-	-	0.21	10.05	0.78	2.47	-	5.75	0.07	2.93
Enterprises	-	2.43	-	0.39	7.95	0.73	-	-	0.08	0.88
Handicapped	20.23	52.85	15.84	10.90	8.50	3.56	76.47	26.78	9.00	10.63
Article 5	79.74	95.78	46.50	60.95	65.72	77.11	82.35	77.61	78.85	71.00
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

It can be seen that the pattern differs sharply from country to country. The position in the individual Member States is described below.

a) Belgium

The Community average was exceeded in three intervention fields - textiles, the regions and the handicapped (Art. 5). The level of intervention in support of textile workers is due to the serious difficulties being encountered by the Belgian textile industry.

It would be interesting to know the geographical distribution of regional aids. Unfortunately, all the relevant applications were made by the National Employment Office, and this makes it impossible to identify the beneficiary regions. The NEO submitted all applications other than those for migrant workers and the handicapped. Applications for schemes benefitting migrant workers were submitted by local bodies.

b) Denmark

This country has made limited applications for funds under Article 4 (4.2%). This percentage is easily the lowest in the Community. On the other hand, Denmark - after Luxembourg - obtained the highest percentage of aid for the handicapped (Article 5). Assistance for enterprise groups also exceeded the Community average. A substantial proportion of regional aids went to Greenland, the applications being submitted by the Ministry for Greenland. No applications were submitted by non-public bodies or by regional authorities (apart from the Ministry for Greenland).

c) Germany

Germany was the only country to obtain more aid under Article 4 than under Article 5. This should be stressed, given the statement in Article 9 (2) of the Decision reforming the Social Fund that the appropriations earmarked for Article 5 measures must account each year for at least half of available funds. So far, aids under Article 5 have accounted for 71% of Social Fund appropriations. However, the same Article states that in the long run, the bulk of available funds is to be earmarked for Article 4 assistance.

This distribution leads to proportionately high (in comparison with the Community mean) aid for workers leaving agriculture, for textile workers, for the handicapped (Article 4) and to a smaller extent for young people.

Substantial aids were granted for the handicapped (total disbursements (Articles 4 and 5) accounted for 32% of all assistance granted to Germany.

As regards the applicant bodies, in all intervention fields schemes are submitted by federal ministries (e.g. Bundesministerium für Arbeit und Sozialordnung), national authorities (Bundesanstalt für Arbeit) and regional authorities.

d) France

In the case of France, support provided under Article 4 and Article 5 is in a better balance than in the Community as a whole. This is mainly due to the considerable sums allotted to workers leaving agriculture (58.13 MUA), which account for more than half the sums granted for this purpose in the Community as a whole. This predominance reflects the importance of agriculture in the French economy.

As in Germany, schemes catering for young people received more than the Community average. The reverse holds for textiles, regions and migrant workers. It should be noted that the sums requested in individual applications varied sharply - some of these schemes only involve a few dozen workers, while others involve several thousand.

As a result, the total number of applications is much higher than in other countries, such as Germany.

Applicant bodies are very numerous and of all sorts - ministries, national public bodies, local and regional authorities and bodies, private institutions and firms.

e) Ireland

The substantial funds going to workers leaving agriculture and textile workers are also a feature of the situation in Ireland. These two fields account for more than 27% of the sums going to Ireland, the Community average being less than 14%. Regional aids account for nearly half of the financial assistance received by Ireland, which is normal in view of the fact that this country is one of the Community's development regions.

As in France, the number of applications is very large and the average size relatively small. The reason is that many applications are made by private companies who want to retrain workers or train recruits. Such schemes are inevitably smaller than those submitted by national public bodies, though these also made applications (especially the National Manpower Services).

f) Italy

Less than a quarter of the assistance given to Italy came under Article 4. Only Article 4, assistance for migrant workers, exceeded the Community mean. The sums involved went to schemes catering for workers migrating from south to north Italy, to comprehensive programmes drawn up jointly by Italy and reception countries, and to arrangements to help workers obliged to return home because of the recession in their host countries. In the case of Italy, regional aids were the largest item in both absolute (255.91 MUA) and relative (70.35%) terms.

Applications were submitted by public and private bodies, operating at regional and national level. As already pointed out, the number of Italian bodies submitting applications to the various Funds is relatively high. In many cases, several central bodies are entitled to submit applications for one and the same regions. These central bodies are public, semi-state agencies such as Ente Nationale Idrocarburi, Instituto Ricostruzione Industriale, Ente Participazione Financiamento Industria Manifatturiera. Applications are also made by ministries. However, recent years (1975 and 1976) have seen a drop in the number and size of applications submitted by regional authorities.

g) Luxembourg

Social Fund operations in this country are very easy to analyze because 95% of the aid was for handicapped persons and logically most of these operations were conducted under Article 5, being directly concerned with the retraining of handicapped persons. The operations under Article 4 related mainly to demonstration projects and the training of instructors.

h) The Netherlands

The apportionment of credits between Articles 4 and 5, is the same as for Italy. The Article 4 credits represent only 22% of the total and are concerned mainly with agriculture, textiles (above the Community average) and migrant workers, whereas aid for young people is much more modest. The high level of aid under Article 5 is due to the size of the credits for handicapped persons (26.8%), the operations in favour of the regions being below the Community average.

All the applications from the Netherlands were made by two Ministries (Social Affairs and Education), which points to maximum centralization with apparently no scope for initiatives by regional or local authorities or private-sector undertakings.

i) <u>The United Kingdom</u>

Operations under Article 4 represent 21% of the Social Fund aid to the United Kingdom. As a result, aid for textiles, agriculture and handicapped persons was on a relatively small scale. Assistance for young people and migrant workers was above the Community average, which indicates the particular seriousness of the youth unemployment problem in the UK and the difficulties in absorbing migrant workers.

Article 5 operations were mainly concerned with the regions, 69.7% of the total credits granted to the United Kingdom coming under this heading.

If the applications for aid to the regions are broken down according to the kind of applicant, it will be seen that, except in the case of Northern Ireland, a very small number of applications were made by local or regional public bodies. There were in fact two kinds of applicant : private-sector undertakings and central organizations (e.g. the Training Services Agency, Department of Manpower Services).

j) Conclusion

The breakdown of the applications shows the very great differences in structure between the various Member States, some of which centralize all their applications, while others allow central and regional authorities to operate alongside each other. There is, however, no instance of the national authorities not having submitted any application at all. There are also considerable differences in the volume of applications from private-sector undertakings.

Chapter IV

The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)

Chapter IV

THE GUIDANCE SECTION OF THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND (EAGGF)

A. INTRODUCTION

The operations of the EAGGF in its present form are governed by Council Regulation (EEC) No. 729/70 of 21 April 1970 on the financing of the common agricultural policy (OJ No. L 94 of 28 April 1970 , page 13). This regulation came into force at the end of the transitional period, i.e. when the single market was achieved (unified price systems and Community agricultural policy). But the former structures of the EAGGF have not been abolished entirely because some of the provisions of Council Regulation n° 17/64/EEC of 5 February 1964 on the conditions for providing aid from the European Agricultural Guidance and Guarantee Fund (OJ of 27 February 1964, p. 586/64) were retained in Regulation No. 729/70.

The EAGGF has two sections, a Guarantee Section and a Guidance Section.

The Guarantee Section finances refunds on exports to non-member countries and intervention measures designed to regulate the agricultural markets (Article 1(2) of Regulation 729/70). It is therefore primarily an instrument acting on the prices of farm products and its impact on farm structures can only be indirect. Thus there is no reason why it should be linked to other instruments since the objectives pursued are different in each case.

The Guidance Section is for financing measures forming part of a structural policy. Its job is described as follows in Article 1(3) of Regulation 729/70 :

"The Guidance Section shall finance common measures adopted in order to achieve the objectives set out in Article 39(1)(a) of the Treaty (increasing agricultural productivity by the development of technical progress, while guaranteeing the rational growth of agricultural production and the optimum use of production factors, including labour), including structural adaptation necessary for the proper working of the common market. However, such measures shall not take the place of the activities of the European Investment Bank and the European Social Fund."

The link with the other financial instruments is thus established by the regulation itself.

B. ORGANISATION OF THE EAGGF'S GUIDANCE SECTION

1. Action by the Guidance Section

Article 6 of Regulation 729/70 lays down two fields where the Guidance Section can be used:

a) The Financing of Joint Measures decided on by the Council in order to achieve the objectives set out in Article 39(1)(a) of the Treaty including the structural changes necessary for the proper working of the common market.

Such measures are decided on by a qualified majority of the Council. The following measures have so far been adopted by the Council:

- Measures to help the formation and operation of hop producers' groups and aid the re-structuring of hop plantations (Regulation No. 1696/71 of

26 July 1971, OJ No. L 175 of 4 August 1971, p. 1);

- Survey on the production potential of orchards in the Community (Council Directive No. 71/286 of 26 July 1971, OJ No. L 179 of 9 August 1971, p. 21);
- Measures to help modernise farms (Council Directive No. 72/159 of 17 April 1972, OJ No. L 96 of 23 April 1972, p. 1);
- Measures to encourage farmers to give up farming (Council Directive No. 72/160 of 17 April 1972, OJ No. L 96 of 23 April 1972, p. 9);
- Measures to provide economic and social information for farmers (Council Directive No. 72/161 of 17 April 1972, OJ No. L 96 of 23 April 1972, p. 12);
- Measures to aid conversion in the cod fishing sector (Regulation No. 2722/72 of 19 December 1972, OJ No. L 291 of 28 December 1972, p. 30);
- Measures to aid conversion from dairy production to meat production (Regulation No. 1353/73 of 15 May 1973, OJ No. L 141 of 28 May 1973, p. 18);
- 1975 structural survey carried out as part of a series of surveys on farm structures (Directive No. 75/108 of 20 January 1975, OJ No. L 42 of 15 February 1975, p. 21);
- Measures to help farming in hill areas and certain other less-favoured areas (Directive No. 75/268 of 28 April 1975, OJ No. L 128 of 19 May 1975, p. 1);
- Measures to encourage the grubbing-up of pear and apple trees (Council Regulation No. 794/76 of 6 April 1976, OJ No. L 93 of 8 April 1976, p. 3);

- Measures to aid conversion in the wine sector (Regulation No. 1163/76 of 17 May 1976, OJ No. L 135 of 24 May 1976, p. 34);
- Joint measures to improve the processing and marketing of agricultural products (Regulation No. 355/77 of 15 February 1977, OJ No. L 51 of 23 February 1977, p. 1);
- System of premiums for the non-marketing of milk and dairy products and for the conversion of dairy cow herds (Regulation No. 1078/77 of 17 May 1977, OJ No. L 131 of 26 May 1977, p. 1).

The last of these joint measures was unusual in that 60 % of it was financed by the Guarantee Section and 40 % by the Guidance Section.

The conditions for granting aid are different in each individual case.

b) <u>Individual Projects to Improve Agricultural Structures</u>

The activities of the EAGGF's Guidance Section in this area were specified in Regulation No. 17/64 of 5 February 1964 (OJ No. 34 of 27 February 1964, p. 586/64). However, Regulation No. 729/70, which re-organised the EAGGF, gave priority to joint measures, and measures taken in pursuance of Regulation No. 17/64 were given a place of secondary importance in Article 6(4) of Regulation No. 729/70. Individual projects will continue to be financed only if the "annual financial volume" for joint measures is less than the sum earmarked each year for the Guidance Section (325 m.u.a. in 1976).

The objectives of measures taken under Regulation No. 17/64 were set out in Articles 11, 12 and 14 of this regulation and are:

1) The adaptation and improvement of conditions of production in agriculture. This means "the promotion by action on the farms themselves, or within a group of farms, or externally, of an effective combination of the factors affecting agricultural production, in order to make the best possible use thereof."

2) The adaptation and guidance of agricultural production, which means:
   - the quantitative adaptation of production to outlets, and
   - improvements in the quality of the products.

   Both types of measures must also:
   - be aimed at making or keeping farms economically viable and at increasing their competitiveness;
   - give sufficient attention to the problems of the dissemination of agricultural knowledge and vocational training in agriculture, in order to get the best return from the investments to be made; and
   - contribute to the improvement of the social and economic conditions of persons engaged in agriculture.

3) The adaptation and improvement of the marketing of agricultural products. This means "the provision of facilities, on the farms themselves, or within a group of farms, or externally, in respect of the following aspects:

- improvement of storage and preservation;
- obtaining the best return from agricultural products;
- improvement of marketing channels; and
- better knowledge of the data relating to price formation on the markets for agricultural products."

4) The development of outlets for agricultural products. This means "action by the Community to increase the consumption of certain agricultural products."

c) Individual (or Special) Measures)

Since 1966, some of the Guidance Section's funds have been set aside by Council regulations for financing special measures not provided for in the basic Regulation No. 17/64 or,to be more exact, which do not comply with the provisions of that regulation. This is a kind of left-over from the old system. No special measure has been decided on under the new rules for the EAGGF's Guidance Section, which simply continues to implement such measures. If we look at the aims of these measures, we can see that they are of the same type as the joint measures. Since 1972, five special measures have received financing from the Guidance Section:

- Aid to groups of fruit and vegetable producers (Council Regulation No. 159/66 of 25 October 1966, Article 12(3) OJ No. 192 of 27 October 1966, p. 66);

- premiums for the slaughter of cows and the withholding of milk and dairy produce from the market (Council Regulation No. 1975/69 of 6 October 1969 - OJ No. L 252 of 8 October 1969, p. 1);
- Improvements in the production and marketing of citrus fruits in the Community (Council Regulation No. 2511/69 of 9 October 1969 - OJ No. L 318 of 18 December 1969, p.1);
- premiums for the grubbing-up of fruit trees (Council Regulation No. 2517/69 of 9 December 1969 - OJ No. L 318 of 18 December 1969, p. 15);
- assistance to producers' organizations in the fishing industry to enable them to start their operations (Council Regulation No. 2142/70 of 20 October 1970 - OJ No. L 236 of 27 October 1970, p. 5).

The above measures therefore concern:

- assitance to producer groups,
- the removal of imbalances in the markets for certain agricultural produce by granting premiums.

d) <u>Action to help the Friuli-Venezia-Giulia Region (Italy)</u>

Following the earthquake in this area, the Community came to its assistance by making available the sum of 45 m.u.a. This sum was allocated on the basis of similar principles to those applicable in the case of aid to individual projects (see Council Regulation No. 17/64). The Community aid granted to this region of Italy financed 97 individual projects for repairing damage to agriculture.

The importance of the appropriations made available for each of these different types of measures will be considered in the section of the study dealing with the work of the Guidance Section of the EAGGF.

2. Conditions for the Granting of Aid From the Guidance Section of the EAGGF

These conditions vary considerably according to the type of measures involved. They will therefore be considered under the same headings as those used in the section on the tasks of the Guidance Section of the EAGGF.

a) Joint measures

The conditions for granting aid in respect of joint measures are tailored to each particular case. Rather than being conditions in the strict sense, the provisions do, in fact, take the form more of definitions of the aims of the joint measures in question. As these conditions are of a very technical nature, the list given below only includes examples of the main conditions.

- measures to promote the establishment and operation of producer groups in the hop market and the restructuring of hop fields: Regulation No. 879/73 of 26 March 1973 gives a definition of producer groups and limits the granting of restructuring aid to operations of sufficient importance.

- survey of the production potential of orchards: under the conditions applicable to this survey, it is to be limited to orchards of at least 1500 sq. meters in size producing fruit for sale. The conditions also specify the aspects to be covered by the survey (variety of fruit, age of the trees, planting density, number of trees and irrigation);

- measures to modernize farms : under the conditions applicable to these measures, aid is only to be granted to farms which are "suitable for development". The conditions therefore stipulate that the farmers concerned must have adequate professional qualifications and they must draw up a development plan which will ensure the farmer of an earned income comparable to that received for non-agricultural work in the region in question;

- measures to encourage the cessation of farming: under this scheme there are to be three types of payments, two of which are eligible for reimbursement by the Guidance Section of the EAGGF. Payments may only be made to farmers who practise farming as their main occupation and to permanent hired or family workers. To be eligible for such payments applicants must be between 55 and 65 and they must agree to give up farming permanently. The farming land released as a result of these measures must be reutilized in certain specified ways;

- the provision of socio-economic guidance for farmers : the Directive makes provision for the establishment of the necessary infrastructure (information services, the training of socio-economic advisers), measures to promote the acquisition of new skills, and the retraining of workers to enable them to take up other occupations. The Directive does, however, leave the Member States free to lay down the minimum requirements for the approval of such schemes;

- measures to redevelop the cod-fishing industry. Each project undertaken must be in line with the requirements of the common policy on fishing, and must form part of a concerted investment programme, shared between a number of beneficiaries, and having the aim of reducing the production capacity of the cod-fishing industry. The facilities concerned also have to meet certain technical requirements;

- measures to encourage farmers to switch from dairy products to meat production : under the Regulation, the premium to promote this changeover can only be granted in respect of farms having a specific minimum number of dairy cattle and to farmers who agree not to place dairy products on the market whilst, at the same time, not reducing their livestock numbers;

- the 1975 structural survey which formed part of a series of surveys of farm structures : this survey only covered farms of a specific minimum area. The Directive instituting the survey specified the information to be provided by the Member States taking part in the survey.

- measures to encourage the grubbing-up of pear trees and apple trees : the premium is only granted in respect of specified minimum number of trees of certain varieties and a given minimum age. The premium is also only granted on condition that the grower concerned undertakes not to replant any trees of these same varieties for five years;

- measures to redevelop vineyards : to qualify for premiums vineyards have to cover more than 2500 sq. metres. Premiums are also only paid in respect of the grubbing-up of vine varieties producing wine considered to be of inferior quality;

- measures to improve the processing and marketing infrastructure for agricultural produce : projects in this field must be part of specific programmes designed to bring about such an improvement, and leading to the creation of permanent outlets for the agricultural produce concerned;

- premiums for the withdrawal of milk and dairy produce from the market and for switching from dairy cattle to meat production : the payment of the premium is dependent on farmers agreeing not to market dairy produce whilst, at the same time, keeping a minimum number of livestock.

These examples illustrate the technical nature of the conditions normally imposed and also give a clearer insight into the aims of these joint measures. In addition to the specific conditions applicable to each of these measures, there are also a number of common features.

- a deadline is normally set for the implementation of each of the measures;
- an estimate of the total cost to the EAGGF is also given in the provisions applicable to each of these measures.

b) Joint action to help mountain and hill farming and farming in less-favoured areas (Directive 75/268)

Special conditions apply in the case of this action since it is not a separate measure but part of the joint action to modernize farms. This Directive amends the conditions for eligibility for aid (set out in the 1972 Directive) in the light of the special characteristics and requirements of the areas to which it applies. To qualify as "mountain and hill farms", farms must comprise land which can only be utilized with difficulty and in a limited number of ways, because of climatic conditions or because it contains steep slopes. As far as less favoured areas are concerned, the conditions for eligibility are that the land must provide a low level of productivity and the area itself must be in danger of being depopulated.

The joint measures for promoting the modernization of farms are different from other such measures in that the former offer a variety of schemes to aid farmers. Other measures provide for either premiums to be paid by the Member States and subsequently reimbursed by the EAGGF or subsidies to finance part of the cost of proposed investments.

Under the joint measures to promote the modernization of farms several different types of aid are available: reduced rates of interest in respect of loans for planned investments, guaranteed loans, aid for land consolidation and irrigation schemes, aid to promote the keeping of accounts, premiums to encourage the changeover to the production of beef, veal, mutton and lamb, and grants to certain agricultural producer groups. The above types of aid are granted by the Member States and partly reimbursed (25 %) by the EAGGF.

Directive No. 75/268 on mountain and hill farming and farming in certain less-favoured areas provides for four types of aid, three of which are eligible for reimbursement from the EAGGF. The fourth, non-eligible type of aid takes the form of investment subsidies provided by the Member States to farms in mountain and hill areas and less-favoured areas in cases where conditions are such that, even after Directive No. 75/268 had changed the conditions set out in the original Directive No. 72/159, farms are not eligible for aid from the EAGGF. The three other types of aid are as follows:

1) Allowances to compensate for permanent natural handicaps to farming, the amount of the allowance varying according to the severity of the handicap;

2) Easing of the conditions laid down in Directive 72/159 permitting
   - a higher interest rate subsidy;
   - a lower minimum interest charge for the beneficiary;
   - an increase in the amounts of the guidance premium and the ceilings thereon for the production of lamb, mutton, beef and veal;
   - a higher proportion of income from non-agricultural activities for the beneficiaries;
   - aid for tourists or craft investments on farms.

   Moreover, unlike Directive 72/159, which requires that, following implementation of the development plan, the income from farming should be able to be on a par with a non-agricultural income in the same region, Directive 75/268 allows aid to be granted even where the farming income will amount to only 70 % of a non-farming income thereafter.

3) Aid to joint investment schemes for fodder production and to improvement and equipment schemes for pasture and hill grazing land which is farmed jointly.

The three categories of measures are financed by the Member States, the EAGGF reimbursing 25 % of their expenditure. However, these reimbursements are made within the framework of the common action for the modernization of farms whose estimated cost has thus been increased (see above), and hence no budgetary distinction is made between these two activities in the basic Regulations.

c) <u>Individual Projects to Improve Structures</u>

Any project (whether public, semi-public or private) for improving structures must comply with the following conditions (laid down in Article 14 of Regulation No. 17/64) :

1) it must come within the framework of a Community programme (at least from the moment such a programme exists);

2) it must be aimed at an adaptation or guidance of agriculture necessitated by the implementation of the Common Agricultural Policy or at meeting the requirements of this policy;

3) it must offer guarantees in respect of the lasting economic effect of the improvement made in the structure of agriculture.

Actions relating to the improvement of agricultural production must also

- be aimed at improving farms' economic viability and competitiveness;
- "give sufficient attention to the problems of the dissemination of agricultural knowledge and vocational training in agriculture, in order to get the best return from the investments to be made";
- contribute to the improvement of the social and economic conditions of persons engaged in agriculture.

d) Special measures

As in the case of joint measures, the conditions governing the granting of aid are laid down separately for each special measure. Here, too, it is more a question of definitions being given rather than conditions being specified. These definitions are of a technical nature and reveal little about structural policy guidance in the fields in question.

As far as aid to producer groups for fruit and vegetables is concerned, the basic Regulation confines itself to determining the method for calculating the production marketed by these groups' intermediairies and to requiring of these groups "an adequate guarantee with regard to the duration and effectiveness of their action" (Article 2(1)).

The granting of premiums for the slaughter of cows is subject to conditions akin to those for the common action for switching over from dairy production.

The measures for improving the production and marketing of Community citrus fruit set out a system of aid for farmers engaged in the production of oranges and mandarines who replant their plantations to meet consumer demand, in accordance with the guidelines laid down in Regulation 2511/69. The aid is limited to small farms (no larger than 5 hectares) where at least half of the farm's area is affected by the replanting operation. This operation must cover an area of at least 20 ares and have a negative effect on the farm's income. The granting of premiums for the grubbing of fruit trees is subject to a pledge to proceed with the grubbing before a certain date and to abstain from any replanting during the five years following the grubbing.

Aid to producer groups in the fishery sector is restricted to groups formed after the basic Regulation's entry into force.

3. Extent of Intervention

a) Individual Projects to Improve Structures

The current rates of intervention were laid down in Council Regulation (EEC) No. 3171/75 of 3 December 1975 (OJ No. L 315 of 5 December 1975, p. 1).

1) up to 25 % of the expenditure for projects relating to :
- the adaptation and improvement of the marketing of agricultural products (Regulation 17/64, Article 11(1)(c))
- the development of outlets for agricultural products (Regulation 17/64, Article 11(1)(d))

At least 38 % of the expenditure must be borne by the recipient of the aid.

2) up to 45 % of the expenditure for projects relating to :

- the adaptation and improvement of conditions of production in agriculture (Regulation 17/64, Article 11(1)(a));
- the adaptation and guidance of agricultural production (Regulation 17/64, Article 11(1)(b)).

At least 20 % of the expenditure must be borne by the recipient of the aid.

b) Joint Measures

The various rates of intervention laid down for joint measures are as follows :

1) 25 % of the expenditure

- farm modernization measures;
- measures to help farming in hilly and certain less-favoured areas (general rule);
- measures relating to the provision of socio-economic guidance and the acquisition of occupational skills by farmers;
- reconversion measures in the cod-fishing sector;
- measures encouraging farmers to give up farming (general rule);

- measures to encourage the formation and operation of hop producers' groups.

2) <u>up to 25 % of the expenditure</u>

- measures to improve the production and marketing conditions for agricultural products (with the Commission having the option to raise this level to 30 % for some projects after consultation with the Standing Committee on Agricultural Structures).

3) <u>35 % of the expenditure</u>

- measures to help farming in hilly and certain less-favoured areas in Ireland and Italy.

4) <u>40 % of the expenditure</u>

- premiums for the non-marketing of milk and dairy products and the conversion of dairy herds (Regulation No. 1078/77).

5) <u>50 % of the expenditure</u>

- switchover from dairy to meat production (Regulation No. 1353/73);
- measures relating to the conversion and restructuring of hop gardens;
- measures to encourage the grubbing of pear and apple trees.

6) <u>65 % of the expenditure</u>

- measures to encourage farmers to give up farming in less-favoured areas where no previous measures of this type have been adopted.

7) 708,300 u.a. were shared out among the Member States for the statistical survey on fruit trees and in the '75 structural survey 12 u.a. of aid were granted for each farm questioned.

Apart from the levels of intervention, certain absolute ceilings have been imposed on aid per area, farm, etc. These ceilings have not been included here, for they are of little significance in comparison with the systems in force for the other financial instruments.

c) <u>Special Measures</u>

50 % of the premiums or aid granted for special measures is reimbursed to the Member States by the EAGGF Guidance Section.

4. Procedure for Granting Aid From The EAGGF Guidance Section

a) Common measures

In the case of most common measures the Member States have to take steps to organize the operation of the measures on their territory, before any aid is granted. In such instances, and where measures implementing basic provisions have to be adopted at Community level, the Commission takes its decisions after consultation of the Standing Committee on agricultural structure and the EAGGF Committee (on the financial aspects). If the Commission's decision is at variance with the Opinion of the first-mentioned of these committees, it is communicated as soon as possible to the Council, which may decide differently by a qualified majority within one month. The Commission may defer application of its decision for the same period.

The actual procedure for granting aid for common measures is as follows:

1 The expenditure involved in common measures is borne in the first instance by the Member States. The Guidance Section of the EAGGF refunds a proportion of this expenditure to the Member States. The applications for refunds are therefore lodged by

the Member States. In many cases the provisions governing common measures set a time limit for the submission of applications.

2) The Commission seeks the views of the EAGGF Committee on the financial aspects of the aid (Article 7(1) of Regulation No. 729/70).

3) The Commission then takes its decision (Article 7 (1)) and proceeds to refund the expenditure incurred by the Member States, to the extent fixed for each common measure.

b) <u>Individual Projects to Improve Structures</u>

The procedure for granting aid in this field is laid down in Articles 19-22 of Regulation No. 17/64 of 27 February 1964.

1) Applications for aid must be submitted through the Member State concerned before 1 October each year. (Article 20(1) and (2)).

2) In order to receive aid a project must have been approved by the Member State concerned (Article 20(3)).

3) The Commission seeks the views of the EAGGF Committee, which is composed of Member-State representatives.

The Committee is consulted on the finances available (Article 21 (1)).

4) The Commission has to decide on the merits of the applications before 31 December of the year following that of their submission (Article 20(1)).

5) The decision of the Commission is communicated to the Member State concerned and to the beneficiaries (Article 21(2)).

6) Aid is granted, through the agencies designated for that purpose by the Member States, to the natural or legal persons or groups of natural or legal persons who ultimately bear the cost of the project (Article 22(1)).

c) Special measures

The decisions relating to each special measure provide for an aid-granting procedure identical to that laid down subsequently for common measures, which proves once again the affinity between the two kinds of measure.

C. Activities of the EAGGF Guidance Section

As in the case of the other financial instruments, the activities of the EAGGF Guidance Section are studied on the basis of the financial reports for the years 1972 - 1976.

1. Size of the Guidance Section's resources

The size and development of the Guidance Section's resources can be seen from various data :

- the budget appropriations, i.e. the amount entered annually in the Communities' budget under the Guidance Section heading;

- the aid decisions reflecting the commitments entered into each year by the Guidance Section. In this case the commitments relate to projects submitted the preceding year;

- the payments, which are made as and when the documents proving that the investments or work have been carried out are lodged and checked. Consequently the payments represent the fulfilment of commitments entered into some considerable time before the date of payment.

Table I : Development of the Guidance Section's Resources

	1972	1973	1974	1975	1976
Budget appropriations	285 MUA	325 MUA	325 MUA	325 MUA	325 MUA
Aid decisions	209.6 MUA	169 MUA	198 MUA	278.1 MUA	287.3 MUA
Payments made	74 MUA	123.8 MUA	128.3 MUA	184.3 MUA	218.2 MUA
Credits available	843.6 MUA	958.8 MUA	1114.7 MUA	933.3 MUA	980.2 MUA

It will be seen first of all that the appropriations have not increased since 1973 and that they seem to be fixed more or less automatically without any account being taken of inflation. It must not, however, be inferred that the Guidance Section does not have enough resources, for not once in the five years in question did the aid decisions aggregate anything near the amount of the appropriations, so that the credits available rose accordingly. In 1975, the drop in the credits available was due to the exceptional transfer of 62.5 MUA to the Guarantee Section and to the fact that 150 MUA were used to finance the European Regional Development Fund.

Since 1971 the appropriations for the financing of individual projects have been fully committed (which was not the case during the first years of operation of the Guidance Section). (One will note here the relative slowness of the procedure for granting aid in respect of projects to improve structures : the projects have to be submitted before 1 October each year and the Commission thus has 15 months in which to decide). The increase in the credits available is due to the non-utilization of the credits earmarked for common measures whose implementation posed certain problems.

Actual payments are relatively small compared with the appropriations and the aid decisions. This reflects a slowness in the making of payments which almost exclusively affects individual projects. In the case of common measures and special measures refunds are generally effected in the year in which the applications for aid are made, since these applications are submitted by the Member States and no checks or verifications are called for. In the case of individual projects, on the other hand, the Commission carries out a check on the basis of supporting documents which are sent to it via the Member States and which have to prove that the preconditions for payment have been met. It should also be noted that in the case of structural projects payments are not made until the projects are being executed or have been completed. As regards common and special measures, it will be recalled that it is expenditure borne in advance by the Member States that is refunded. The following table illustrates the slowness of the payments for individual projects:

Table II : Credits and Payments for Individual Projects

Year of submission of the projects	Credits submitted	Payments made	Payments as a percentage of commitments
1970	160 MUA	97.2 MUA	60.75
1971	200 MUA	102.2 MUA	51.10
1972	150 MUA	66.1 MUA	44.06
1973	170 MUA	53.1 MUA	31.23
1974	235 MUA	45.0 MUA	19.15
1975	212.6 MUA	10.8 MUA	5.08
1976	235.5 MUA	-	-

This table shows the credits committed and the payments made each year. These figures highlight the slowness of the payments, which impairs the effectiveness of Guidance Section aid and the incentive it provides as far as projects for the improvement of structures are concerned.

2. Distribution of Appropriations

The lion's share of appropriations has gone to individual projects, but the objective set by the regulations is for all Guidance Section appropriations to be earmarked for joint measures. This is the reason for the large amount of appropriations which are set aside for joint measures.

Table III - Distribution of Appropriations

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Individual projects	200	95.4	150	88.7	170	85.9	235	84.5	212.6	74.0
Joint measures	-	-	2	1.2.	5.1	2.6	31.7	11.4	68.5	23.8
Special measures	9.6	4.6	17	10.1	22.9	11.5	11.4	4.1	6.2	2.2
TOTAL	209.6	100.-	169	100.-	198.-	100.-	278.1	100.-	287.3	100.-

It can be seen that it is only over the last two budgetary years that joint measures have really begun to take off. The result has been a rapid expansion of the share of the EAGGF Guidance Section which is earmarked for joint measures. This increase caused a reduction to take place in the amount set aside for special measures (which are, in any event, due to disappear in the near future) and for individual projects. Nevertheless, individual projects still account for three quarters of Guidance Section appropriations.

3. Fields of Activity

a) Individual Projects to Improve Structures

Since 1971, all the appropriations granted under this head have always been taken up. Some projects have even had to be turned down because of lack of funds. On the other hand, the amount of appropriations earmarked for joint measures which remained unused have continued to increase steadily.

Table IV - Funding of Projects Per Year

(see next page)

Table V : Financing of Projects Per Year

Year project submitted	Year of decision	Projects submitted		Projects rejected	Projects accepted			Average aid per project
		Number	Total investment		Number	Total investment	Aid granted	
1971	1972	958	1062 MUA	235	723	806.8 MUA	200 MUA	24.8 %
1972	1973	880	1078 MUA	451	429	588.4 MUA	150 MUA	25.5 %
1973	1974	1502	2161 MUA	865	637	840.6 MUA	170 MUA	20.2 %
1974	1975	1296	2092 MUA	530	766	1111.5 MUA	235 MUA	21.1 %
1975	1976	1046	1849 MUA	354	692	1031.6 MUA	212.6 MUA	20.6 %
1976	1977	1051	1730 MUA	243	808	1258.3 MUA	264.2 MUA	21.0 %

The Commission rules on projects in the year following their submission. Consequently, funds are earmarked in the budget for the year in which the Commission takes its decision. This is the year referred to in the remainder of this section.

Projects are turned down for three reasons : because they are inadmissible, because they do not comply with requirements or because of lack of funds. More than three quarters of all projects turned down were not accepted because of lack of funds.

There has also been a decrease in the overall size of projects in terms of finance. As a result, the Commission has been able to accept more projects, but at the same time its choice has been restricted by this trend. In any event, the decrease in applications is not a good thing. It is not explained by the fact that the agricultural industry needs less credit as a result of the current economic situation, but would seem to show decreased interest by investors in aid from the EAGGF Guidance Section.

Average aid per project has scarcely changed over the last four years. It is still at a high level in comparison with other financial instruments such as the ERDF.

The maximum EAGGF interest in projects for improving marketing structures is 25 % of the total investment. The corresponding figure is 45 % for projects for improving production structures.

This difference in the amount of aid has resulted in projects for structural improvement being subdivided into three categories.

Table V : Distribution of Appropriations according to Category of the Individual Projects

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Production structures	133.1	66.6	80.7	53.8	83.2	48.9	89.4	38.0	77.2	36.3
Marketing structures	59.1	29.5	63.9	42.6	71.0	41.8	118.9	50.6	122.3	57.5
Mixed structures	7.8	3.9	5.4	3.6	15.8	9.3	26.7	11.4	13.1	6.2
TOTAL	200.0	100.-	150.0	100.-	170.0	100.-	235.0	100.-	212.6	100.-

The comparative figures given here are the most significant in that they allow fluctuations in budgetary allocations to be ignored. The table very clearly shows that there has been a steady decrease since 1972 in the fraction allocated to projects for improving production structures. The financial reports do not show up this phenomenon. These data will have to be seen in relationship with appropriations earmarked for joint measures directly concerned with production structures (modernization of farms, cessation of farming) and marketing (improvement of situation as regards the processing and marketing of agricultural products).

Such an exercise will not be possible until the measures mentioned are at a more advanced stage of implementation.

Each of these categories covers very different sectors.

1. Improvement of Production Structures

Table VI - Appropriations for Projects to Improve Production Structures

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Land-structural reform	46.7	35.1	16.8	20.8	24.8	29.8	20.5	22.9	20.0	25.9
Water-irrigation	25.0	18.8	15.2	18.8	21.3	25.6	13.7	15.4	12.5	16.2
Afforestation	3.6	2.7	1.6	2.0	5.3	6.4	15.6	17.4	7.9	10.3
Other	57.8	43.4	47.1	58.4	31.8	38.2	39.6	44.3	36.7	47.6
TOTAL	133.1	100.-	80.7	100.-	83.2	100.-	89.4	100.-	77.2	100.-

No real trend can be seen from this table. The nature of the projects in each sector is as follows:

- land-structural reform : projects concerned with the rural road network and work in connection with the amalgamation of holdings (hydraulic projects, drainage, structural reforms, roads);

- water-irrigation : alteration of water courses, construction of pumping and spray irrigation stations, laying-on of water and mixed hydraulic/agricultural projects.

- afforestation

- miscellaneous : expansion of meat production, construction of fishing boats, fitting out of fishing ports, setting-up of fish and shell-fish farms, associated work for connecting drinking water supplies, improvement of vineyards, restructuring of olive-growing, storage and packaging of potatoes and potato seed, mushroom growing, facilities for research, marketing and vocational training.

2. Improvement of Marketing and Processing Structures

Table VII - Appropriations for Improving Marketing and Processing Structures

(see overleaf)

Table VII - Appropriations for Projects for Improving Marketing and Processing Structures

	1972		1973		1974		1975		1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Dairy products	18.8	31.8	23.1	36.1	26.6	37.5	31.5	26.5	19.5	15.9
Meat	8.1	13.7	10.2	16.0	9.2	12.9	18.9	15.9	31.5	25.8
Fruit and vegetables	9.5	16.0	8.3	13.0	7.5	10.6	17.9	15.1	13.5	11.0
Wine	9.3	15.7	5.9	9.2	9.2	13.0	23.5	19.7	23.4	19.1
Cereals	8.2	13.8	3.8	5.9	3.2	4.5	6.3	5.3	7.4	6.1
Miscellaneous	5.2	8.8	12.6	19.7	15.1	21.3	20.8	17.5	26.9	22.0
TOTAL	59.1	100.-	63.9	100.-	71.0	100.-	118.9	100.-	122.3	100.-

As in the case of production centres, it is difficult to deduce trends covering several years. Appropriations for beef and wine are however rising fairly regularly and now account for approximately 44 % of the appropriations while, as the relevant figures show, there has been a significant slump in appropriations for meat. The objectives of the individual projects were as follows :

- dairy products : modernisation and rationalisation of creameries, establishment and expansion of cheese factories, various arrangements for improving milk collection and distribution, alterations to and expansion of butter factories, dairy products training and research centres;

- meat : processing plants, slaughter houses, cattle marketing centres, animal fat refining centres;

- fruit and vegetables : processing plants, storage and packaging centres, sales and marketing facilities;

- wines : construction and fitting out of cooperative cellars, bottling and packing centres, distilleries for wine by-products, construction of wine-making centres, wine-maturing and marketing centres;

- cereals : packing, dehydration and storage centres;

- miscellaneous : construction of fishing boats fitted with processing plants, cooperative oil stores, processing centres for various agricultural products, fish marketing and processing plants, egg and poultry marketing centres, tobacco factories, polyvalent markets, seed preparation centres, plants for manufacturing frozen products and cooked meals.

3. Improvement of mixed structures

This heading covers projects relating to marketing and production structures which have not been listed under the two previous headings even though some of the headings coincided. They cover in particular the production of animal feeding stuffs, the production and marketing of beef, veal and sheepmeat, the improvement of milk collection arrangements, the dehydration of beet pulp, cold-stores for dairies, the improvement of vineyards and the modernisation of cooperative cellars, etc.

b) Joint measures

As stated above, these measures were rather slow to get off the ground. The first decisions on expenditure were not taken until 1973; they covered the statistical surveys on fruit trees and the restructuring of cod fishing. In 1974 it was decided to assist these two projects and the project to encourage meat production. Final decisions on the joint projects which had been mooted before July 1975 were not taken until 1975. It is therefore difficult to discuss the year-on-year trend of allocation of appropriations between the various joint projects. In addition, the projects have different timescales.

The aggregate sums committed up to 1976 may better illustrate the activity of the EAGGF Guidance Section in this area. These data can be related to estimates for each joint action as determined by the basic provisions and also with the timescale set for implementing the measures.

Table VIII - Allocation of Appropriations Between the Various Joint Actions

(see overleaf)

Table VIII - Allocation of Appropriation Between The Various Joint Actions

(1) Estimates for the first five years

Joint Actions	Commitments U.A.	Commitments %	Estimates in U.A.	Length envisaged	Degree of imple-mentation
1. Joint tree surveys (Dir. 71/286)	729.900	0.68	708.300	1 year	concluded
2. Cod fishing (Regulation 2722/72)	9.582.914	8.93	10.200.000	5 years	93.95 %
3. Restructuring beef and veal (Regulation 1353/73)	39.989.281	37.26	60.000.000	18 months	66.64 %
4. Hop producers (Regulation 1696/71)	1.537.373	1.43	1.600.000	10 years	96.08 %
5. Farm modernisation (Dir. 72/159)	10.416.498	9.70		10 years	
6. Disadvantaged farming areas (Dir. 75/268)	36.018.154	33.56		10 years	
7. Total 5 + 6	46.434.652	43.26	686.400.000 (1)	10 years	6.76 %
8. Withdrawal from farming (Dir. 72/160)	53.105	0.05	288.000.000 (1)	10 years	0.02 %
9. Socio-economic information (Dir. 72/161)	2.361.184	2.20	110.000.000 (1)	10 years	2.14 %
10. Structural surveys 75 (Dir. 75/108)	6.625.492	6.17	7.920.000	2 years	83.65 %
TOTAL	107.313.905	100.-	1.164.828.300		

The implementation of the first two actions does not seem to have created any problems. The action to restructure the cod fishing industry made it possible to introduce large modern ships (factory and refrigerator trawlers).

The action to expand meat production was to be completed on 31.12.1974. Although the first major payments were not made until 1975, they accounted for a significant proportion of the estimates. It should be recalled here that the joint actions are designed to reimburse part of the aids granted by the Member States in the areas concerned and that it is therefore possible that the States may have granted the aids within the prescribed deadlines but have not requested reiumbursement within these deadlines.

Although the basic regulation on joint action to assist hop growers groups adopted in 1971, the implementing provisions were not introduced until 1973. In 1975 commitments ran at only 15 % of estimates but expenditure in 1976 almost absorbed the appropriations for the entire project despite the fact that it is scheduled to run for 10 years. It is therefore likely that the estimates will be exceeded.

Implementation of the 1975 structures survey does not seem to have posed any problems since it is in the concluding stages two years after it was implemented. 83 % of the estimates have already been committed. The basic directive provided for the survey to cover between 508,000 and 660,000 farms. So far, surveys followed by reimbursement have been carried out on 653,000 farms.

The three directives of 15.4.1972 which were designed to introduce a new farm structures policy have so far only been implemented to a minimal degree. This is due to the fact that implementing measures were not taken until 1974.

Nevertheless the 1976 figures seem to indicate that the decisions on farm modernisation and on disadvantaged agricultural zones are beginning to be more successful. 45.3 MUA have been committed in this area for 1976 alone. The more modest sum of 1.7 MUA has been committed for socio-economic information. Joint action on retirement from farming is still a dead letter.

The last four joint actions illustrate the slow way in which EAGGF operates. Failure to introduce implementing provisions holds up the actions for several months. In several cases, there have been delays lasting several years between the basic decision to take joint action and the first reimbursements of expenditure by the Member States. In addition EAGGF Guidance aids are awarded ex post facto and are only indirect since they are designed to reimburse aids granted by the Member States. This combination of factors casts doubt on the effectiveness and the incentives provided by EAGGF Guidance aids in this area also.

c) Special measures

These measures were all mooted, in principle at least, before the introduction of the new EAGGF arrangements. Most of them have therefore reached a more advanced stage in implementation than the joint actions. This explains why the appropriations granted to them are larger than those granted for the joint actions.

Table IX - Allocation of Appropriations Between the Various special measures (Units of Account)

(see overleaf)

Table IX - Allocation of Appropriations Between Special Measures (UA)

	1972	1973	1974	1975	1976	1972-1976
Slaughter of cows	1,864,702	4,255,809	11,745,955	2,796,017	2,038,075	22,700,558
Grubbing of orchards	7,390,554	10,329,313	9,394,455	7,610,071	193,342	34,917,735
Fruit and vegetable growers	390,903	2,430,294	1,763,166	1,053,410	2,079,567	7,717,340
Fisheries	-	-	12,103	30,246	141,605	183,954
Citrus fruit	-	-	-	-	1,778,169	1,778,169
TOTAL	9,646,159	17,015,416	22,915,679	11,489,744	6,230,758	67,297,756

Unlike common measures, specific sums are not allotted to special measures. Given the similar concept and purpose of common and special measures, the latter are to be phased out. No special measures have been decided since the new EAGGF came into effect. A number of special measures are to be incorporated in common measures. For instance, the support for groups of fruit and vegetable growers and fishermen should be included in the common measure in favour of producers' groupings which has been proposed by the Commission.

The special measures with respect to slaughter of dairy cows and orchard grubbing were closed with the payments made in 1976.

They have been replaced by the common incentives for the grubbing of pear and apple trees, the non-marketing of fruit and vegetables, and a changeover to beef farming.

The execution of special measures with respect to citrus fruit has been postponed because of delays in the implementation of implementing regulations and programmes in the countries concerned (France, Italy). Initial expenditure was to begin in 1974, and be spread over five years. In fact, disbursements did not begin until 1976.

4. Job impact of Guidance Section Measures

EAGGF financial reports give little information on job impact. EAGGF guidance measures are not intended to create jobs directly, but to restructure Community farming. Consequently, the basic unit is the farm and not jobs. Furthermore, certain activities (eg. inquiries) have no impact on employment, which may explain the absence of aggregate data on the job impact of the Guidance Section of the EAGGF.

However, the 1976 report provides employment data for four common measures which have a more direct impact on jobs. The common farm modernization measure helped 16,400 farmers to implement a development plan for their farms. The steps to help disadvantaged areas led to the payment of compensatory allowances to 240,000 farmers. So far, only 262 farmers have benefitted from the incentives for withdrawal from farming.

17,750 farmers attended further training courses held under the arrangements in furtherance of socio-economic information. In addition, more than 1250 advisers were trained.

5. Regional Impact of Guidance Section Measures

The financial reports give the figures needed to evaluate the impact of EAGGF guidance activities in the individual Member States and regions.

Firstly, there is the distribution for 1972 to 1976 of EAGGF (Guidance Section) appropriations between the individual Member States.

A substantial portion of appropriations went to Federal Germany, which received more than France. This is surprising, for such a pattern does not exactly reflect the scale of the problems faced by the two countries.

Table X - Allocation of EAGGF (guidance) Appropriations Between Member States

(see overleaf)

Table X - Allocation of EAGGF (Guidance) Appropriations Between Member States

	1972		1973		1974		1975		1976		1972–1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Belgium	14.06	6.70	13.72	8.11	11.52	5.81	13.40	4.81	12.39	4.31	65.09	5.70
Denmark	-	-	-	-	4.69	2.36	10.65	3.82	10.51	3.66	25.85	2.26
Germany	63.43	30.26	48.53	28.71	50.10	25.30	57.71	20.75	59.25	20.62	279.02	24.43
France	45.26	21.59	40.31	23.85	43.27	21.85	53.85	19.36	54.87	19.10	237.56	20.80
Ireland	-	-	-	-	6.89	3.47	12.66	4.55	15.17	5.28	34.72	3.04
Italy	68.29	32.58	51.99	30.76	48.10	24.29	73.84	26.55	66.85	23.27	309.07	27.06
Luxembourg	1.67	0.79	0.97	0.57	0.26	0.10	0.99	0.35	0.09	0.03	3.98	0.35
Netherlands	16.83	8.02	13.48	7.97	13.08	6.60	14.87	5.34	14.74	5.13	73.00	6.39
UK	-	-	-	-	20.05	10.12	40.16	14.44	53.40	18.58	113.61	9.95
TOTAL	209.6	100.00	169.00	100.00	198.00	100.00	278.1	100.00	287.3	100.00	1142.00	100.00

The figures for Italy and Germany are relatively close to each other, although the problems of Italian agriculture are significantly worse. The size of the sums earmarked for Germany is mainly attributable to special measures. The sums earmarked for special measures in Germany were high in the initial years of the EAGGF, owing to the promptness with which applications for reimbursement were submitted by Germany.

These differences are not due to deliberate policy. The practical execution of common and special measures cannot take place unless the Member States set up the machinery decided on at Community level. The EAGGF merely refunds the expenditure of the Member States. Similarly, the payments for specific schemes are not made till the scheme has been set up, or at least only after each phase of its establishment. As a result the situation varies considerably, as witness the 1976 report which gives the ratio of disbursements to commitments for individual schemes in the Member States.

Table XI - Disbursements as a percentage of commitments

Disbursements / Commitments %	Disbursements in 1972 and 1973	Disbursements from 1974 to 1976
Belgium	64.3	16.8
Denmark	-	36.8
Germany	70.7	22.3
France	51.6	14.2
Ireland	-	17.1
Italy	18.8	1.2
Luxembourg	27.5	17.5
Netherlands	72.3	30.9
United Kingdom	-	26.2
Community	48.4	16.1

This table clearly shows the delays in the execution of schemes in Italy. The Netherlands and Denmark are much more efficient than the Community average, in this respect.

Table XII - Breakdown of Appropriations per Type of Activity and per Member State for the 1972 - 1976 Period

	Individual projects		Joint measures		Special measures	
	MUA	%	MUA	%	MUA	%
Belgium	58.79	6.07	1.13	1.05	5.17	7.69
Denmark	23.52	2.43	2.32	2.16	0.01	0.01
Germany	233.52	24.11	22.68	21.12	22.82	33.93
France	190.79	19.70	29.09	27.10	17.68	26.29
Ireland	29.75	3.07	4.97	4.63	-	-
Italy	289.65	29.90	3.86	3.59	15.56	23.14
Luxembourg	3.72	0.38	0.11	0.10	0.15	0.22
Netherlands	64.76	6.69	2.58	2.40	5.66	8.42
United Kingdom	72.89	7.53	40.59	37.81	0.13	0.19
TOTAL	968.5	100.00	107.35	100.00	67.25	100.00

This table calls for several comments. Firstly, the three new Member States have hardly made any use at all of the aid granted for special measures. This is due to the fact that most of the measures qualifying for this aid were implemented or at least embarked on prior to these Member States' accession. In addition, these special measures were designed to satisfy needs of the original Six which do not necessarily exist in the new Member States. The size of the appropriations granted to Germany for special measures has already been underlined; these appropriations exceed those granted to Italy. In addition, the situation as regards joint measures is even stranger, for Italy has received only 3.59 % of the appropriations granted here. However, it must be added that, in this sector, the purpose of the various joint measures has an influence on the country-by-country breakdown. Some measures concern some countries more than others. Most of these joint measures have also been put into effect since the new Member States' accession and the latter have therefore derived more benefit from this aid. The United Kingdom is the leading recipient, having been granted more than 37 % of the appropriations.

Italy's request for reimbursements are much later in arriving than the requests from other Member States, which accounts for this country's very small share of aid for joint measures. The aid granted to Italy for special measures is proportionally much higher, probably because of the fact that a much earlier start was made on these special measures and Italy has therefore been able to submit more requests for reimbursements under this heading despite the delays witnessed.

This is probably also why Germany has received more than France despite the grave problems facing the important farming sector in France.

a) Belgium

The appropriations granted for individual projects account for more than 90 % of the aid Belgium has received from the EAGGF - Guidance Section. Projects for improving marketing structures have received slightly more aid than projects associated with production structures which have mostly been to do with land reform. The projects for improving marketing structures have mainly been centred on the meat, dairy produce and fruit and vegetables sectors. Individual projects in North Belgium have received 53.7 % of the aid, the South has received 34.1 %, the central Brabant area 9.4 % and 2.7 % has been devoted to multi-regional projects.

The two special measures from which this country has benefitted on a large scale are those relating to the grubbing of fruit trees and the slaughter of cows. Belgium has also been granted 0.87 MUA as part of the joint scheme for encouraging beef and veal production. Meat production seems to have been given top priority by Belgium in its reorganization of agricultural structures.

The breakdown of appropriations between the various types of activity shows that, after Italy, Belgium is the country in which the lowest percentage of the total aid received from the EAGGF - Guidance Section has been devoted to joint measures (1.74 %).

b) Denmark

This country has received only one small grant (16,000 UA) for special measures (organization of fruit and vegetable growers), owing to the fact that most of these measures had been decided on and put into effect before Denmark's accession. Joint measures have absorbed 9 % of the appropriations Denmark has received, a figure slightly above the one for Belgium. For example, 0.7 MUA has been spent on the modernization of farms. Nonetheless, more aid (1.43 MUA) has been granted for the switchover from dairy to beef production. Aid for cattle also dominates the money granted for the individual projects (91 % of all appropriations), accounting for 60 % of the total. Dairy produce takes second place with 13 % of the aid. Projects for improving marketing structures have also swallowed a heavy proportion of the appropriations. The main region to benefit from aid for individual projects is to the west of the Storebølt which has received 66.7 % of the appropriations.

c) Germany

83.6 % of the appropriations granted the Federal Republic have gone into individual structural projects. This figure is lower than it is in the countries dealt with above, but it nevertheless shows the slowness with which the EAGGF's reform is being put into effect. Article 6 of Regulation No 729/70 stipulates in fact that the EAGGF will cease to finance individual projects when the sums devoted to joint measures draw level with the Guidance Section's total appropriations (325 MUA). The moment when joint measures will swallow up all of the Guidance Section's appropriations still seems a long way off. So, too, does a Community policy towards agricultural structures. In Germany projects involving production structures have received Community aid amounting to 138.68 MUA or 49.70 % of the total appropriations granted the country. Land reform and afforestation have accounted for the largest share of these projects. As regards marketing structures (91.75 MUA), the dairy produce sector has been at the forefront. The regional breakdown of these aids shows that 55.8 % has gone to the regions of Bavaria (21.56 %), Lower Saxony (20.15 %) and Baden-Württemberg (14.08 %).

During the five years under review, Germany has been the main beneficiary of the special measures (22.82 MUA or 8.1 % of its total appropriations). Two special measures have received most of this aid, those relating to the slaughter of cows and the grubbing of fruit trees. The first of these measures has been followed up by the Community-wide scheme to encourage beef production under which German farmers have received 4.46 MUA. Furthermore, Germany has,along with France,been the only country to date to benefit from the Community-wide scheme for the redevelopment of the cod fishing industry (2.86 MUA).

Germany has also received some 13.62 MUA in connection with the joint measures on the modernization of farms (7.3 MUA), socio-economic guidance (1.1 MUA) and help for less-favoured farming areas (5.2 MUA), i.e. close on 28 % of the money spent throughout the Community on these three measures.

d) France

As in the other countries, individual projects have derived most benefit in France from the EAGGF Guidance Section's appropriations. They have in fact received 80.31% of the total, this percentage being divided almost equally between production and marketing structures. The projects for improving production structures have had to do mainly with land reform and water supply and irrigation works. Projects encompassing both production and marketing structures have received 11 % of the total appropriations granted to France. The marketing-structure projects have come mainly from the dairy sector. The geographical breakdown of the appropriations for individual projects shows that 57.23 % of all aid has gone to three regions - the West (21.98 %), the Parisian basin excluding the Paris region (16.25 %) and the Mediterranean region (19 %).

As in several other countries, the special measures from which France has derived most benefit are those relating to the slaughter of cows (15.36 MUA) and the grubbing of fruit trees (8.98 MUA).

France has benefitted the most from the scheme for the redevelopment of the cod-fishing industry (6.71 MUA). It has also received 10 MUA under the Community-wide scheme for encouraging beef production. 10.3 MUA have also been paid out to France as part of the joint action for helping less-favoured farming areas and 1.1 MUA have been granted under the socio-economic guidance scheme.

e) Ireland

Ireland has obtained no aid in connection with special measures. On the other hand, it has been paid 4.98 MUA as part of various joint measures, this sum representing more than 14 % of all the appropriations granted to this country. The largest slice of this aid for joint measures (2.90 MUA or 58.22 %) has gone on helping less-favoured farming areas.The other joint measures for which a fair amount of aid has been granted are those relating to the modernization of farms (0.67 MUA) and the switchover from dairy to beef production (0.88 MUA).

85.68 % of the appropriations granted to Ireland have gone towards financing individual projects, most of which have been concerned with marketing structures (59.19 % of all the aid given to Ireland). The two main sectors to benefit from this aid have been, as in other countries, the dairy and meat production sectors.

24 % of these appropriations were used to finance multi-regional projects. 38.6 % were allocated between the two southern regions (South West and South East) with 23.2 % going to Donegal, the Mid-West and the Eastern coast.

f) Italy

Possible explanations have already been advanced to account for the low-level of aid granted to Italy in the form of joint measures (3.86 MUA). As for special measures, they account for only 5.03 % of all appropriations allocated to Italy. These 15.56 MUA allocated for special measures can be broken down into four types of activities: grubbing of fruit trees (7.76 MUA), aid to fruit and vegetable grower associations (5.38 MUA), citrus fruits (1.61 MUA) and the slaughter of cows (0.82 MUA).

This means that 93.7 % of EAGGF Guidance Section appropriations allocated to Italy have been in the form of individual projects. As far as production structures are concerned, most of the aid has gone on "miscellaneous" projects (this notion having already been defined) and, to a lesser extent, on water supply and irrigation works. With regard to marketing structure projects, the main sectors to benefit have been wine and, to a lesser extent, fruit and vegetables.

The three main beneficiary regions have been the South - Pulia, Basilicata and Calabria (16.83 %), the Centre - Tuscany, Umbria and the Marches (16.45 %) and the North-East (17.16 %).

g) Luxembourg

The allocation of appropriations to Luxembourg is rather similar to that for Italy. Individual projects account for 93.5 % of the total whereas joint measures (0.11 MUA) form less than 3 %, most of them being related to the beef and veal sector. As far as special measures are concerned (3.77 %), Luxembourg has derived most benefit from the slaughter of cows and the grubbing of fruit trees.

Marketing structure projects take 40 % of appropriations and largely concern the dairy produce sector. The mixed structure projects account for 23 % of all appropriations whereas production structure projects primarily involve water supply.

h) The Netherlands

Individual projects (88.7 % of total aid) primarily concern marketing structures (especially dairy produce, fruits and vegetables) but 27.48 MUA have been used to finance projects in connection with production structures relating to land reform.

A geographical breakdown reveals a concentration on two regions: the West (33.84 %) and the North (31.58 %).

Special measures (7.75 %) are primarily made up of grubbing premiums (4.56 MUA) and slaughter premiums (2.26 MUA).

Joint measures (3.5 % of total aid) have been mainly to do with the modernization of farms (1.16 MUA) and the switch from beef to dairy production (1.16 MUA).

i) United Kingdom

This country enjoys the highest proportion of joint measures, since 35.7 % of total aid granted to the United Kingdom is of this kind. In absolute terms the amount involved is 40.59 MUA of which more than 97 % has been concentrated on two types of activity: the switch from beef to dairy production (21.08 MUA) and help for less-favoured agricultural areas (17.66 MUA). Appropriations granted under the heading of special measures have been of very minor importance; this is something which is characteristic of the three new Member States.

64.16 % of total aid has gone on individual projects. Most of this has gone on marketing structures with the dairy produce (9.80 MUA) and meat (9.17 MUA) sectors being the main beneficiaries. 21.47 MUA have gone on mixed structure projects, and a lesser amount on production structure projects, the latter basically being water supply and irrigation works.

The three regions to have derived most benefit from the EAGGF - Guidance Sector are Scotland (26.83 %), Northern Ireland (20.79 %) and Yorkshire-Humberside (11.32 %). Together they take 58.94 % of appropriations the remaining 40 % being spread over the other eight regions.

Chapter V

ECSC Aid Measures

CHAPTER V

ECSC AID MEASURES

A. INTRODUCTION

ECSC aid and lending operations were started under Articles 54 and 56 of the ECSC Treaty of 18 April 1951. They therefore form the Community's first financial instrument. The two Articles provide for various kinds of operation - guarantees, non-repayable aid and loans.

- Guarantees : the Commission may guarantee loans contracted by undertakings. This kind of operation has not, however, been used since 1972.

- Non-repayable aid : under Article 56 of the Community may also provide non-repayable aid towards :

  "- the payment of tideover allowances to workers;

  - the payment of allowances to undertakings to enable them to continue paying such of their workers as may have to be temporarily laid off as a result of the undertakings' change of activity;

  - the payment of resettlement allowances to workers;

  - the financing of vocational training for workers having to change their employment".

According to the Treaty, this aid may be granted in the following two cases :

- if the introduction, within the framework of the general objectives of the Community, of new technical processes or equipment leads to a large reduction in labour requirements;

- if fundamental changes in market conditions for the coal or the steel industry compel some undertakings permanently to discontinue, curtail or change their activities.

In practice, aid has been granted only in the second case (which is set out in Article 56(2).

The granting of aid is conditional on payment by the State concerned of a contribution of not less than the amount of the aid.

This aid is made available following negotiations between the Commission and the State concerned. There is no national quota system limiting the aid granted to each country. The size of the credits therefore depends on the needs and problems of each Member State.

TABLE I - AID FOR THE RETRAINING OF WORKERS (PERIOD 1972 - 1976)

(in MUA) (C = coal industry) (S = steel industry)

	1972			1973			1974			1975			1976			1972 - 1976		
	C	S	Tot	C	S	Tot	C	S	Tot	C	S	Tot	C	S	Tot	C	S	Tot
Belgium	0.04	-	0.04	2.76	-	2.76	0.94	0.29	1.23	1.76	0.82	2.58	2.60	0.72	3.32	8.09	1.83	9.92
Denmark	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Germany	2.94	0.18	3.12	24.94	0.80	25.74	8.73	0.14	8.88	5.40	0.15	5.55	8.27	0.72	8.99	50.28	1.99	52.29
France	7.59	4.25	11.85	8.37	0.40	8.78	6.45	0.07	6.52	1.12	0.09	1.21	2.17	0.36	2.53	25.70	5.17	30.89
Ireland	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Italy	-	0.36	0.36	-	-	-	-	-	-	-	-	-	-	-	-	-	0.36	0.36
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pays-Bas	-	-	-	-	-	-	-	-	-	-	0.21	0.21	-	-	-	-	0.21	0.21
The United Kingdom	-	-	-	-	0.65	0.65	19.44	3.74	23.19	8.36	2.14	10.50	8.42	1.84	10.26	36.04	8.37	44.60
Total	10.58	4.80	15.38	36.07	1.86	37.93	35.58	4.25	39.83	16.64	3.42	20.06	21.47	3.65	25.12	120.34	17.98	138.32

The first thing to be noted is that ECSC aid is of course by its very nature confined to projects directly or indirectly connected with the coal and steel industries. Certain countries and regions have inevitably received little ECSC money in the form of aid or investment loans, since they produce or process only small amounts of the raw materials in question.

This table shows a certain irregularity in the amount of non-repayable aid - after reaching 40 MUA in 1974, this aid was halved in 1975 and showed an upward trend again in 1976. The sudden increase in 1973 and 1974 was due to the growing problems in the coal and steel sectors and to the accession of the three new Member States, particularly the United Kingdom, whose key coal and steel industries were also in difficulties.

In its Ninth General Report 1975 (p. 133, point 211) the Commission gave as an explanation for this situation the developments in the energy sector, which it said had slowed down staff reductions and plant closures in these sectors.

It will also be noted that since it joined the Community, the United Kingdom has been the main beneficiary of this aid, with the Federal Republic of Germany taking second place.

The ECSC Annual Reports do not give any details as to the regional breakdown or the content of this aid.

- This is why the rest of this chapter will be devoted to an examination of the loans granted in these sectors under Articles 54 and 56 of the ECSC Treaty.

B. OPERATION OF THE MACHINERY FOR GRANTING LOANS

1. Loan Categories

On the basis of Articles 54 and 56, three categories of loans have been introduced. One is directly concerned with investments in the coal and steel sectors (industrial loans). One has to do with the redeployment of workers who have lost their jobs in these sectors (loans for industrial reconversion). The third category is aimed at improving the living conditions of workers in these sectors (loans for housing).

a) Industrial Loans

These are provided for in Article 54 of the ECSC Treaty and are intended to encourage investment in the coal and steel industries. Article 54 states that the Community may participate in the financing of :

- investment programmes (Article 54, first paragraph). The object here is to encourage investments which would enhance undertakings, productivity and competitiveness. The Community may help to finance capital equipment, ancillary installations or vocational training centres;

- works and installations "which contribute directly and primarily to increasing the production, reducing the production costs or facilitating the marketing of products within its jurisdiction" (Article 54, second paragraph)

  ex. : power stations fuelled with Community coal, transhipment sites for raw materials for the steel industry.

b) Reconversion Loans

Article 56 allows the Community to grant loans to facilitate the financing of programmes for the creation of new and economically sound activities capable of reabsorbing into productive employment workers in the coal and steel industries who have been made redundant through :

- the introduction of new technical processes or equipment (Article 56, first paragraph);
- fundamental changes in market conditions for the coal and steel industries (Article 56, second paragraph).

Unlike the first category, these loans are not intended for the coal and steel industries. The loans are granted to undertakings in a wide range of sectors which commit themselves to reserving some of the jobs they will create for workers made redundant in the coal and steel sectors.

c) Loans for housing

This category, too, is based on Article 54, second paragraph, which states that the Community may "assist the financing of works and installations which contribute directly and primarily to increasing the production, reducing the production costs or facilitating the marketing of products within its jurisdiction".

To improve housing conditions for workers in the coal and steel industries, the Community grants loans for the building of housing for owner-occupation and for letting and for the modernization of old houses for workers in the coal and steel industries.

2. Field of Application

The loans may be granted to undertakings in the public or private sector. States or local authorities cannot obtain loans under the ECSC Treaty. Undertakings receiving loans under Article 54 must be engaged in production in the coal or steel sector. As has already been stated, this condition does not apply in the case of loans for industrial reconversion under Article 56.

3. Amount of ECSC Aid

No minimum or maximum has been fixed for these loans. The amount is determined on a case-by-case basis after examination of the projects. However, as a general rule, the loan does not exceed 40% of the cost of the investment.

Industrial loans have ranged from 0.6 MUA to 260 MUA and loans for industrial reconversion from 0.2 MUA to 9.6 MUA.

The pattern is in fact very similar to that in the lending operations of the EIB, where the same flexibility is evident.

In the case of housing loans, the amount is the same for each dwelling unit but with differentiation according to region and branch of activity.

4. Interest Rates

a) Loans for Building Dwellings

The interest rate is 1% and the loans are long-term ones. These loans are frequently combined with loans granted either by financial institutions or by the ECSC at the normal rate.

b) Other Loans

1° General Rule

The interest rate is variable; it reflects the rate paid by the ECSC itself on the capital market in the various places where it contracts loans. Accordingly, the rate varied between 7.5 and 10% over the 5-year reference period. These loans are made available at cost price in that no commission or similar charges are levied.

2° <u>With Interest Rate Subsidy</u>

In virtue of a Commission Decision (OJ No. C 73 of 18 June 1970, page 1), confirmed by a subsequent Decision (OJ No. C 146 of 25 November 1974, page 1), certain loans may be granted at three points below the normal interest rate. This reduced rate may apply to all or part of the loan. In paragraph 3 of the 1974 Decision it is stipulated that the reduced interest rate loans are only to be granted up to a maximum amount of 50% of the cost of the investments. Furthermore this reduced rate is confined to the first five years of the loan, after which the normal rate applies. These two Commission Decisions relate to loans granted under Article 54. The same rebate is, however, granted in respect of loans under Article 56. For both loan categories the granting of the interest rebate is subject to certain conditions relating to the nature of the planned investments.

aa) <u>Reconversion Loans (Article 56)</u>

According to the ECSC financial reports, the rebate is granted on condition that a proportion of the new jobs created will be reserved in the first instance for workers made redundant in the ECSC industries.

bb) Industrial Loans

To qualify for the interest rebate, industrial loans must relate to :

- investments arising out of provisions laid down by the public authorities in the field of safety and hygiene, particularly when the cost impact on the existing installations of similar undertakings located in different regions is too unequal;
- investments of an international nature which promote Community integration of ECSC undertakings, insofar as such projects suffer from disadvantages of a fiscal, legal or administrative nature;
- investments aimed at eliminating bottlenecks affecting an entire industrial sector covered by the ECSC Treaty;
- investments for the purpose of setting up research or vocational training centres in the ECSC sphere.

5. Granting of loans

a) Submitting Requests

Applications for conversion loans must be made through the relevant Member State.

Applications for industrial loans are made directly to the Commission by the companies concerned.

Applications for housing loans are submitted individually. They must fall within outline programmes which are drawn up by the Commission with the approval of the relevant employers' organizations, trade unions and ministries. To date eight outline programmes have been drawn up.

b) Consulting the Council

- Article 56 of the ECSC Treaty: The Council only has to be consulted in respect of operations falling within the second paragraph of Article 54, in which case its approval has to be unanimous. Accordingly, loans for investment programmes under the first paragraph of Article 54 do not necessitate Council consultation;

- Article 56 of the ECSC Treaty: Council approval is not required where the conversion loans are intended for industries coming within the ambit of the ECSC. On the other hand, the Council has to be consulted where the loan applied for is for an industry not coming within the ambit of the ECSC.

c) Paying of loans - securities

Loans are advanced in step with the work. The Commission accompanies its loans with guarantees, generally public authority securities.

d) Duration

Duration varies between 5 and 20 years. Theoretically, the duration is the same as that of the borrowings which are financing the loan. However, if the duration of the loan is too short for the borrower, the ECSC may grant an extension.

e) Repayment

Repayment is by annual instalments, beginning 3 to 5 years after the grant of the loan. Payments may be made before they are due in accordance with the conditions laid down at the time when the loan was made.

C. SUMMARY OF LOAN OPERATIONS

1. ECSC resources for financing loans

These resources fall into three main categories :

a) Loan Funds : each year the ECSC floats a number of loans on the capital market

These borrowings enable the ECSC to help finance investment by means of loans. Since 1972 the level of ECSC borrowing has risen rapidly, which reflects a corresponding rise in lending.

- 1972 : 11 loans totalling 229.99 MUA
- 1973 : 13 loans totalling 262.86 MUA
- 1974 : 13 loans totalling 527.71 MUA
- 1975 : 23 loans totalling 731.3 MUA
- 1976 : 31 loans totalling 956.0 MUA

Income from the loans is used to finance industrial loans and conversion loans.

b) Levies on coal and steel production. These have also increased over the last 5 years : 1972 : 47.21 MUA
1973 : 62.89 MUA
1974 : 69.59 MUA
1975 : 70.20 MUA
1976 : 92.61 MUA

These levies have enabled grants in aid to be made as described earlier. They also enable certain loans to be made at a reduced rate of interest. In this case, these funds are used to make up the difference between the rate of the loan and the rate at which the ECSC would float a "normal" loan on the capital market.

c) Treasury Receipts : this is the result of the management of funds. Borrowings and levies are not disbursed immediately and this enables the ECSC to invest some of these funds, thus providing it with supplementary resources in the shape of investment income. The ECSC has other own resources as a result of the repayment of loans. The ECSC's own resources are used to finance housing loans, grants in aid and cut-rate loans. The amount of own resources fluctuates considerably because it depends on the interest rates ruling on the capital market.

2. Distribution of loans by category

Table II - Distribution of loans by category

See next page

TABLE III - DISTRIBUTION OF LOANS BY CATEGORY

	1 9 7 2		1 9 7 3		1 9 7 4		1 9 7 5		1 9 7 6		1972 - 1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
INDUSTRIAL LOANS	148.25	78.65	278.0	97.06	323.97	85.73	728.0	91.01	982.42	92.35	2460.64	90.41
CONVERSION LOANS	32.40	17.19	2.75	0.96	49.44	13.08	53.32	6.66	63.13	5.93	206.04	7.57
HOUSING LOANS	7.85	4.16	5.66	1.97	4.46	1.18	18.54	2.32	18.21	1.71	54.72	2.01
TOTAL	188.50	100	286.41	100	377.87	100	804.86	100	1063.76	100	2721.40	100

Industrial loans account for the lion's share of ECSC loans. They increased very markedly in 1975, mainly as a result of the energy crisis which caused a revival of interest in energy sources other than oil owing to the oil price hike.

In parallel, the drive continued to increase productivity in the steel industry.

Despite the upturn in investment, employment in the two industries did not follow a similar pattern. As a result, the boom which gave rise to a fall-off in conversion loans in 1973 owing to the ease with which workers from the coal and steel industries could find jobs in other sectors was followed by a less favourable period. The difficulties in redeploying labour from the coal and steel industries made it necessary to increase the number of conversion loans. Thus there was a marked increase in conversion loans in 1975 and 1976. Furthermore, it must be borne in mind that, as far as this category of loan is concerned, the ECSC's activities hinge very largely on what conversion measures are taken at the national level and on guidelines laid down nationally since applications for conversion loans must be submitted by the Member States.

In this case, the Member States are the middlemen between the companies concerned and the Community authorities.

3. Activities by loan category and distribution by sector

a) Individual Loans

Table III - Distribution by sector

See next page.

TABLE III - DISTRIBUTION BY SECTOR

	1972		1973		1974		1975		1976		1972 - 1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
COAL	7.61	5.13	54.19	19.49	62.18	19.19	160.87	22.10	179.85	18.30	464.70	18.88
STEEL	133.58	90.10	223.19	80.28	250.52	77.33	567.13	77.90	802.57	81.68	1976.99	80.34
POWER STATIONS	7.06	4.76	0.62	0.22	11.27	3.48	-	-	-	-	18.95	0.77
TOTAL	148.25	100	278.00	100	323.97	100	728.00	100	982.42	100	2460.64	100

This table shows the preponderance of loans to the steel industry. This state of affairs does not reflect the existence of a Community policy but merely the distribution of investment between the two sectors. Investment in steel accounts for 80% of total investment in coal and steel in the Community.

ECSC loans account for a growing share of investment in ECSC industries.

In 1973, loans from the ECSC (278 MUA) accounted for 8.42% of total investment (3300 MUA). In 1976, loans (982.42 MUA) rose to 27.28% of investment (3600 MUA). While this is a good thing from the point of view of the activity of the ECSC, it underscores the inadequacy of the resources of enterprises in the coal and steel sectors, which used to be less reliant on loans.

As far as the coal industry is concerned, the main aim is to stabilize the amount of coal won. Accordingly, the ECSC primarily encourages projects whose aim is the modernization of mines, the renewal of coking plants, the construction of power stations and the introduction of district heating schemes using Community coal.

The aims assigned to the steel industry are mainly concerned with rationalization of production, improved supply of raw materials and the extension of factories in coastal locations.

b) Reconversion Loans

Table IV - Breakdown by industry

The following table is taken from the 1976 financial report :

Iron and steel industry	29.03%
Manufacture of motor vehicles and accessories	13.45%
Chemicals	11.84%
Industrial estates	7.25%
Non-ferrous metals	6.98%
Power stations	4.99%
Rubber	4.88%
Articles of cast iron, steel and other metals	4.35%
Mechanical engineering	4.05%
Joinery and furniture manufacture	2.49%
Paper and printing	2.08%
Ceramic ware, glass, lime and stone	1.99%
Electrical equipment	1.97%
Textiles and clothing	1.15%
Manufacture of plastic articles	0.68%
Miscellaneous	2.82%

The ECSC endeavours, through these loans, to widen the industrial base in those regions where the steel and coal industries are concentrated. The short-term effectiveness of these loans is guaranteed by the fact that they are not granted unless they are used for the reemployment of workers made redundant in the steel and coal industries. In the longer term, the loans effectiveness depends on the competitiveness of the firms to which they are granted. The ECSC's activities in this field are thwarted by Member States' aid policies which encourage investments in regions other than those where the steel and coal industries are located (Seventh Annual Report on the Activities of the European Communities, p. 203, point 232). This state of affairs lessens the attractiveness of the ECSC's loans. The current recession has led to a slowdown in investments, which may partly explain the slow growth in the aid granted in the form of conversion loans. Nevertheless, the Ninth Annual Report thinks that there is bound to be an increase in conversion loans on account of the growing problems facing the ECSC industries. Until 1975 the coal-producing regions were the regions mainly hit by redevelopment problems. But steel producing regions are also exposed to such problems because of the shift in production to coastal regions.

A study of the list of industries benefiting from the loans shows that almost 30% of these loans have gone towards financing programmes for the reemployment of steelworkers. Several of the industries receiving the loans are steel-using industries. However, the figures undoubtedly reflect the Community's determination to broaden the industrial base.

c) Loans for Building Dwellings

The purpose of these 1% interest loans is to improve the living conditions of workers employed in the coal and steel industries. They are used for the modernization of old dwellings and the building of new low-cost housing.

Programmes for this work are drawn up by the Community in conjunction with the national authorities and labour and management organizations from the ECSC industries. By 1976, the eighth housing programme was in progress. Since the start of the ECSC's activities in this field, 147,000 low-cost dwellings have been built (15,000 of which were completed in 1975 and 1976).

4. Job Impact

By their very nature, these housing loans do not have a direct impact on the employment situation in the coal and steel industries.

The industrial loans do not have a visible impact either. Even though the building of factories in coastal areas in particular and expansion moves in certain sectors of the ECSC industries may have a positive influence on employment, the same cannot be said for the schemes to rationalize production. These schemes make it necessary to find new jobs for the redundant workforce. Conversion loans are intended to directly stimulate the reemployment of jobless ECSC workers in financially sound industries. All the jobs created by these loans do not have to go to jobless ECSC workers. Only a certain number of the new jobs created have to be reserved in the first place for them. However, the loans may be granted at a reduced rate of interest if a large proportion of the new jobs are for ECSC workers. According to the Commission, the conversion loans granted between 1972 and 1976 should enable 24,000 jobs to be created, of which close on one half (12,400) will be reserved in the first place for ECSC workers. ECSC loans have contributed more and more in recent years to the financing of investments, as it has been pointed out above. The fact that one half of the workers filling the jobs created with the ECSC's assistance are not from the coal and steel industries is not considered to be a disadvantage. Instead, it goes to show the flexibility of these loans.

5. Regional Impact

The regional distribution of the ECSC loans is influenced by the fact that these loans, unlike other financial instruments, are confined to workers in two specific industries, and therefore depend on the location of these industries.

Table V - Country-by-country breakdown of ECSC loans

See overleaf

TABLE V - COUNTRY-BY-COUNTRY BREAKDOWN OF ECSC LOANS

	1972		1973		1974		1975		1976		1972 - 1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
BELGIUM	16.53	8.77	1.34	0.47	10.28	2.72	42.12	5.23	37.26	3.50	107.53	3.95
DENMARK	-	-	7.81	2.72	0.27	0.07	22.99	2.85	-	-	31.07	1.14
GERMANY	71.90	38.14	164.73	57.51	150.06	39.71	150.87	18.74	186.91	17.57	724.47	26.62
FRANCE	63.24	33.55	106.78	37.28	84.77	22.43	117.09	14.55	133.21	12.52	505.09	18.56
IRELAND	-	-	-	-	-	-	0.17	0.02	0.69	0.06	0.86	0.03
ITALY	25.73	13.65	1.77	0.61	65.18	17.25	176.59	21.94	147.74	13.89	417.01	15.32
LUXEMBOURG	-	-	-	-	0.41	0.11	1.13	0.14	0.08	0.01	1.62	0.06
NETHERLANDS	11.10	5.89	3.98	1.39	1.85	0.49	30.43	3.78	38.55	3.62	85.91	3.15
UNITED KINGDOM	-	-	-	-	65.05	17.21	263.47	32.73	519.32	48.82	847.84	31.15
TOTAL	188.50	100	286.41	100	377.87	100	804.86	100	1063.76	100	2721.40	100

The United Kingdom is the leading recipient although it did not receive any loans during the first two years. Germany and France follow in second and third places. In terms of volume these three countries are the most important ECSC producers.

Table VI - Breakdown of loans according to countries and categories

See overleaf

TABLE VI – BREAKDOWN OF LOANS ACCORDING TO COUNTRIES AND CATEGORIES

	INDUSTRIAL LOANS		CONVERSION LOANS		HOUSING LOANS		TOTAL	
	MUA	%	MUA	%	MUA	%	MUA	%
BELGIUM	90.87	3.69	10.28	4.99	6.38	11.66	107.53	3.95
DENMARK	30.39	1.23	–	–	0.68	1.24	31.07	1.14
GERMANY	662.52	26.92	39.19	19.02	22.76	41.59	724.47	26.62
FRANCE	444.11	18.05	47.94	23.27	13.04	23.83	505.09	18.56
IRELAND	–	–	0.54	0.26	0.32	0.58	0.86	0.03
ITALY	379.30	15.41	32.40	15.72	5.31	9.70	417.01	15.32
LUXEMBOURG	0.65	0.03	–	–	0.97	1.77	1.62	0.06
THE NETHERLANDS	75.20	3.06	8.34	4.05	2.37	4.33	85.91	3.15
UNITED KINGDOM	777.60	31.60	67.35	32.69	2.89	5.28	847.84	31.15
TOTAL	2460.64	100	206.04	100	54.72	100	2721.40	100

The spread of the industrial loans roughly reflects the breakdown of the overall figures. This is due to the relative importance of these industrial loans, which therefore have a great bearing on the totals.

In France the percentage of conversion loans is greater than the country's total percentage of loans whereas in Germany the opposite is true. The percentage of housing loans received by these two countries and Belgium is also above each country's total percentage. This is due to the fact that the building of homes for ECSC workers and the granting of loans for this work is based on predetermined programmes and the new Member States were not included in the programmes laid down before they joined the Community.

a) Belgium

Wallonia was the main recipient of ECSC loans between 1972 and 1976, getting 53.03% of the total. The other loans went to Flanders. The Brussels region received none because neither steel nor coal is produced there. Wallonia has received the greater percentage of industrial loans, while Flanders has received more loans for workers' housing. The conversion loans taken out have been for financing investment projects in Flanders for the building of infrastructure and industrial plant.

b) Denmark

All the ECSC loans granted to this country so far have gone to the region to the east of the Store Baelt. Denmark has received no conversion loans since it joined the Community and it is therefore impossible to draw any conclusions about the policy pursued in this country with regard to the reemployment of workers from the steel and coal industries.

c) Germany

North Rhine-Westphalia has received 50% of the loans granted to the Federal Republic, and leads the way in all three loan categories. Four industries have received the major share of the conversion loans granted to this region : ores and metals, chemical products, metalworking and non-metallic minerals.

Two other regions have shared 36% of the loans - Lower Saxony (21.5%) and the Saar (14.5%).

The Saar is a traditional coal-mining and steel-making area and has thus received quite a large slice of the loans. The conversion loans that have gone to this region have scarcely helped to broaden the industrial base since they have all been granted to the ore and metal industry. The loans received by Lower Saxony reflect the shift in the location of the steel industry towards the coast. This is a very recent trend, since the ECSC loans remained constant between 1973 and 1975 before shooting up tenfold in 1976. It is probably for the same reason that Bremen received loans totalling 76.65 MUA in 1974 and 1975 (8.47%). The other regions in Germany have received no more than 2.5% of the country's total.

d) France

Three regions received more than 80% of the loans granted to France between 1972 and 1976. The East, which is still one of the main coal-mining and steel-making areas in France, received 28% of the total. The conversion loans granted in this region have gone to the non-metallic ores sector. The Mediterranean region also received 28% of the loans. This figure reflects the growing buildup of the steel industry along the coast. This area's conversion loans have been granted to the metalworking sector, which bears out the trend apparent in this area. The third area to benefit from loans is the North (26%), a mining area par excellence. Most of the conversion loans in the North have been granted to the mechanical engineering and chemical industries.

It should be noted that 9.16% of the loans have been granted to multiregional projects whose nature and purpose have not been specified in greater detail.

e) Ireland

Ireland is considered to be a single region from the Community point of view. Information on this country gives no indication of the geographical spread of the loans granted. Furthermore, this country has received a very small number of loans. Only one conversion loan has been granted to date. And the housing loans received account for only 0.58% of the Community total.

f) Italy

The South of Italy (Basilicata, Calabria, Apulia) has received 59% of the country's ECSC loans. Almost all of these are industrial loans, the remainder being for housing. No conversion loans have been received by this region.

Central Italy (Tuscany, Marches, Umbria) has received 7.2% of the ECSC loans. Most of these are likewise industrial loans. The only conversion loan this region has received has been for the metalworking sector. The North West (Piedmont, Liguria) has received 11.2% of the loans. This is the region which has benefited most from conversion loans, having received 5/6 of the total. These loans have gone to the metalworking and energy sectors. Lombardy has received 8.56% of the Italian total, while 9% has been spent on multiregional projects, all in the form of industrial loans.

These figures show that the Mezzogiorno has amassed 70% of the ECSC loans. This is below the percentage for other financial instruments. Nonetheless, this figure can be accounted for by the geographical spread of the coal and steel industries, which determines the regional distribution of the loans to a large extent.

g) Luxembourg

No conversion loans have gone to this country, where the main emphasis has been on loans for the building of workers' homes. One industrial loan was also granted in 1975.

h) The Netherlands

All of this country's loans have gone to two regions - the West and the South. The West has amassed 89% of the country's total. All the industrial loans have gone to this region, as have all the loans for house-building apart from one which has gone to the South. The South is the only region to benefit from conversion loans in the Netherlands. These loans have been granted to the ore and metal sector, the metalworking industry, the chemical industry and the non-metallic minerals sector. Another loan has been spread over unspecified sectors ("miscellaneous").

i) United Kingdom

The Yorkshire-Humberside region has received 42% of the UK's ECSC loans. All of these have been industrial loans apart from two comparatively small loans for housing. Multiregional projects have been the target of 34.74% of the loans. These have been for firms with head offices in London (e.g. British Steel Corporation, Natural Gas Tubes) which are planning to build or expand factories in the provinces.

Wales has received 11.63% of the loans. Two-thirds of these are industrial loans, the remaining one-third being conversion loans for the ore and metal and chemical product industries.

The other loans are spread amongst six regions including Scotland, which received 7% of the UK's total.

Documentation on

ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS

1972 - 1976

PART B

Overall Assessment of the Features and Weaknesses of the Different Instruments and Suggested Ways of Improving the Way They Operate

Part B

CHAPTER I - Comparison of the Regulations Governing the Operation of the Financial Instruments

Part B

CHAPTER I - Comparison of the Regulations Governing the Operation of the Financial Instruments

A. Introduction

1. In this chapter the main features of the regulations governing the operation of the Community's different financial instruments will be set out alongside each other. This will enable the differences between these regulations to be understood more readily.

2. At this point it would also be wise to recall the two main forms of Community assistance, viz. :

- loans, and
- non-reimbursable aid.

Aid is paid out by the Regional Fund (ERDF), the Social Fund, the EAGGF-Guidance Section and, to a small extent, by the ECSC.

Loans are granted by the European Investment Bank (EIB) and the ECSC. This system of loans is generally backed up by a system of guarantees, which is used on a much smaller scale (during the last five years, it has not been used at all in conjunction with ECSC operations).

Each of these two forms of assistance has different implications for the investor. Loans are for higher individual sums of money and therefore provide greater financial assistance initially. However, they must be repaid which means that the investor must make a profit from his investment. Aid is non-reimbursable and is generally for smaller sums of money.

3. These definitions must be borne in mind when the financial importance of the various instruments is considered.

Table I - Payments made by the Community's financial instruments

(See overleaf)

TABLE I - Payments made by the Community's financial instruments

	1972		1973		1974		1975		1976		1972 - 1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
EIB	505.90	46.96	696.80	43.79	849.70	45.19	917.50	35.79	1086.00	33.77	4055.9	39.27
ERDF	-	-	-	-	-	-	150.00	5.85	300.00	9.33	450.00	4.36
SOCIAL FUND	97.75	9.07	282.95	17.78	327.8	17.43	366.14	14.28	441.00	13.71	1515.64	14.67
EAGGF - GUIDANCE SECTION	285.00	26.46	325.00	20.42	325.00	17.28	325.00	12.68	325.00	10.11	1585.00	15.35
ECSC LOANS	188.50	17.50	286.41	18.00	377.87	20.10	804.86	31.40	1063.76	33.08	2721.40	26.35
TOTAL	1077.15	100.00	1591.16	100.00	1880.37	100.00	2563.50	100.00	3215.76	100.00	10327.94	100.00

The figures for the ERDF, the Social Fund and the EAGGF-Guidance Section do not represent the money set aside in the Communities' budgets for the years in question, but the money actually paid out. The EIB figures are for loans granted within the Community and do not include those granted to third countries.

Loans account for more than 60% of the assistance paid out by the Community during the last five years. In addition, farming and the coal and steel industries have been granted through their own funds (EAGGF and ECSC) more than 41% of all the assistance paid out in the Community, quite apart from the assistance they have received from the other three financial instruments (ERDF, ESF, EIB). This shows the uneven emphasis placed on the Community's different sectoral policies and calls for a comparison of the various Funds' fields of application, which could be followed by a comparison of their levels of aid and aid-granting procedures.

B. Sectors of activity of the Various Financial Instruments

1. European Investment Bank

The loan-giving instruments (EIB, ECSC) do not have any detailed regulations. The Treaties have simply sketched out their scope for action rather loosely. Consequently, these instruments operate along more pragmatic lines.

Art. 130 of the EEC Treaty enables the Bank to finance projects in all sectors of the economy. These projects must comply with one of the following conditions :

- they must help to upgrade less developed regions;
- they must be projects for the modernization or redevelopment of companies or for the creation of jobs;
- they must be projects of common interest to several Member States.

2. European Regional Development Fund (ERDF)

The investments which may receive ERDF aid are defined in Article 4 of Regulation (EEC) No. 724/75 of the Council of 18 March 1975. There are three different types of investments, viz. :

- investments in industrial, craft or service activities (located in national regional development areas and creating or maintaining at least 10 jobs);
- infrastructure investments linked to the abovementioned activities;
- infrastructure investments covered by Article 3 of the Directive on hill farming and farming in certain less developed areas.

3. Social Fund

This Fund's field of activity is defined for the present in Articles 4 and 5 of Decision 71/66 of the Council of 1 February 1971 :

- Article 4 enables the Fund to provide aid for workers' training and geographical and job mobility in cases where the employment situation is threatened by Community measures and warrants Community action;

- Article 5 enables the Fund to provide aid in cases where the employment situation is threatened in certain regions, branches of the economy or groups of firms without Community measures being the cause thereof.

These articles do not restrict the industries which are eligible for aid. Instead they define the conditions under which the Fund can act and the type of project which may receive aid.

4. EAGGF - Guidance Section

Regulation No. 729/70 of 21 April 1970, which reorganized the EAGGF, stipulates that the Guidance Section is to be used basically for the financing of common measures. However, any surplus aid can go to individual projects. It can be seen from the documents dealing with the EAGGF - Guidance Section and from practical experience that the aim of this aid is to modernize

- production facilities and
- processing and marketing facilities.

These rules have been interpreted rather loosely. Regulation No. 17/64 of 5 February 1964, which still applies to projects for the modernization of production facilities, stipulates that the aim of such projects may be (a) increased farm productivity, (b) the qualitative and quantitative improvement of products, (c) the vocational training of farmers or (d) the improvement of farmers' economic or social situation. The modernization of processing and marketing facilities may mean either (a) the improvement of equipment on farms and elsewhere in this sector or (b) measures to increase the consumption of certain farm products.

5. <u>ECSC Aid</u>

This aid is defined in Articles 54 and 56 of the ECSC Treaty. Article 54 enables the ECSC to finance :

- investment programmes (first paragraph of Article 54);
- works and installations which contribute to increasing the production, reducing the production costs or facilitating the marketing of coal and steel products (second paragraph of Article 54).

In both instances the aid is therefore for investments in the coal and steel sectors. In this way, the ECSC has financed industrial loans and housebuilding loans.
Article 56 enables the ECSC to finance the reemployment of coal and steel workers made redundant by :

- new technical processes or equipment which reduce manpower requirements;
- major changes in marketing conditions for the coal and steel industries.

In this way the ECSC may finance programmes for the creation of new jobs for ECSC workers. This aid has taken the form of ECSC redevelopment loans which are not restricted to any particular sectors, the only condition being that they should be used for the reemployment of coal and steel employees. In addition, the ECSC may provide aid for the retraining of ECSC workers.

6. Classification of the Aid

It is also possible to classify the aid granted in certain ways to show where the activities of the Funds overlap (irrespective of the fact that these Funds' rules may differ).

a) According to sectors of the economy

- EIB, Social Fund and ECSC redevelopment loans (ECSC Treaty, Art. 56): the sectors of the economy which may receive aid from the EIB, the Social Fund and the ECSC (in the form of redevelopment loans) are not limited in any way. As far as the ECSC loans are concerned, the industry receiving the money must merely promise to provide new jobs for coal and steel workers.

- ERDF: the Regional Fund may finance investments in the industrial, craft and service sectors as well as infrastructure investments linked thereto and investments in agricultural infrastructure in high-lying and less-developed areas. Thus agricultural investments, other than those for infrastructure projects, are not eligible for ERDF aid.

- EAGGF - Guidance Section and ECSC aid pursuant to Article 54 of the Treaty: this aid is confined to specific sectors, viz. farming on the one hand and the coal and steel industries on the other.

b) <u>According to the nature of the operations financed</u>

A threefold distinction can be made here between (a) vocational training and retraining activities in the widest sense, (b) infrastructure investments and (c) investments in the primary, secondary and tertiary sectors.

- vocational training in the widest sense : Social Fund, ECSC aid and EAGGF - Guidance Section. Furthermore, although the ERDF does not finance vocational training, it may on the other hand provide money for the building or extension of vocational training centres as part of infrastructure investments (as it has already done);
- infrastructure investments : EIB, ERDF. The ECSC has also financed such investments with its redevelopment loans;
- investments in the primary, secondary and tertiary sectors (other than infrastructure): EIB, ERDF, EAGGF - Guidance Section and ECSC.

c) <u>According to the regions receiving the aid</u>

Here it is a question of whether the various financial instruments give priority treatment to the least-developed regions. The situation varies greatly from one extreme to the other :

- ERDF : regional development is the express purpose of this fund. Therefore, all the aid granted by the ERDF must be concentrated in national regional development areas.

- EIB and Social Fund: the rules governing these two instruments list regional development as one of the objectives to which priority must be given (Art. 130 of the Treaty for the EIB and Art. 5 of Regulation 71/66 for the Regional Fund). In actual practice, it has been noted in Part A that 70% of the aid granted by the EIB between 1972 and 1976 was for regional development projects. The same percentage was also spent on regional development work in the 1976 Social Fund according to that year's Social Fund Report published by the Commission.

- EAGGF - Guidance Section : the development of the ERDF regions is not mentioned in the rules governing the operation of the Guidance Section. Nonetheless, Directive 75/268 of 28 April 1975 on hill farming and farming in certain less-developed areas has introduced several measures for aiding development areas which are based on other criteria.

- ECSC: ECSC aid is not designed for specific regions but its distribution is governed more than any other instrument's is by the location of the industries it serves. It is surprising, however, that no encouragement is given to setting up industries in the least-developed regions.

C. Levels of Aid of the Financial Instruments

1. European Investment Bank

The EIB's level of aid is not regulated at all. However, in practice, 25% of the total investment cost is paid out on average.

2. European Regional Development Fund

The level of aid granted by the ERDF varies according to the type of investment, viz. :

- 20% of the investments in the industrial, craft and service sectors (up to a maximum of 50% of the regional aid granted by the Member State);
- 30% of the public expenditure on infrastructure investments above 10 MUA;
- 10 - 30% of the public expenditure on infrastructure investments below 10 MUA.

In the last two cases mentioned, public expenditure and not the total cost of the investment forms the basis for calculating the level of ERDF aid. The reason for this is that ERDF only helps to finance infrastructure investments involving some participation by public authorities or similar bodies (a condition which is not explicitly required for infrastructure investments in less-developed agricultural regions which the ERDF can also finance). Over the last two years actual aid towards financing certain kinds of investments has fallen below the target levels. For example, the Regional Fund only contributed 6.96% of the cost of investments in the industrial, crafts and service sector. This came to 35.86% of the regional aid granted by the Member States.

As far as infrastructure investments are concerned, ERDF contributions accounted for 11.73% of investments above 10 MUA, 21.9% of investments below 10 MUA and 25.51% of investments in less-developed agricultural areas. Unlike the first two figures, the last two figures are in line with the objectives set in the basic regulation.

3. Social Fund

A distinction has to be made between :

- action carried out by public authorities or the like : in this case the Fund contributes 50% of expenditure;

- action carried out by private bodies: in this case the Fund contributes an amount equal to the aid granted by public authorities (i.e. a maximum of 50% of expenditure).

The Commission has not provided any statistics about the actual contributions made by the Fund.

4. EAGGF - Guidance Section

The level of aid paid out by the EAGGF varies according to the type of project :

- two rates have been fixed for individual projects :
  a) a maximum of 25% of the cost of investment in the case of projects to improve marketing facilities;
  b) a maximum of 45% of the cost of investment in the case of projects to improve production facilities.

In practice, the Guidance Section has provided 24.5% of the cost of financing projects to improve production facilities, 19.7% of the cost of financing projects to improve marketing facilities and 19.3% of the cost of financing projects involving a mixture of production and marketing facilities.

- special measures: the Guidance Section has, in accordance with the rules governing such measures, reimbursed 50% of the expenditure incurred by the Member States;
- common measures: the level of aid is decided on a case-by-case basis. It varies from between 25% and 65% of the expenditure incurred by Member States. The most frequent

rates are between 25% and 50%. A breakdown of rates for the various common measures has been examined in Chapter IV of Part A.

3. ECSC Loans

As with the EIB, there is no set rate of intervention with ECSC loans. In practice, however, the rate has only very occasionally exceeded 40% of the cost of the investment. The average rate of intervention of the ECSC went up from 8.42% in 1973 to 27.3% in 1976.

D. The Granting of Aid by the Various Financial Instruments

The various Funds differ widely on the matters of procedures used in granting aid and the conditions governing eligibility for aid. For example, only the ERDF stipulates that an investment must be of a minimum size to qualify for aid from the Fund (the sum being 50,000 u.a. in actual fact). Nevertheless, certain other points are worth looking at so that we can identify the common features of the various instruments.

1. Application for Aid

It is important to honour who intends to execute the project, irrespective of who actually submits the application:

- the EIB grants loans to
    - public undertakings
    - private undertakings
    - public authorities.

- the ERDF does not impose any restrictions regarding the applicant; it can in fact be a private firm or any public body. There is one condition, however, namely that the public authorities must always contribute to the project in one form or other if the project in question is to qualify for ERDF aid. The rate of intervention of the ERDF is calculated on the basis of the expenditure incurred by the public authorities.

- the Social Fund can finance projects carried out by :
  - public administrations;
  - bodies governed by public law;
  - joint bodies set up to carry out projects in the public interest;
  - bodies or other organizations governed by private law.

As with the ERDF, the Social Fund only contributes to the financing of private projects if the public authorities at national level also make a contribution. The financial contribution of the Fund must be the same as that of the public authorities.

- As far as individual projects to improve facilities are concerned, the Guidance Section of the EAGGF finances "public, semi-public and private projects" (Article 13(2) of Regulation No. 17/64).

Common and special measures are carried out on the initiative of the Council and are executed by the Member States; there is therefore no call for initiative from public or private sectors.

- the ECSC grants loans to : - private undertakings
  - public undertakings

On the other hand States and local or regional authorities do not receive loans from the ECSC.

2. Submission of Application

In most cases the application cannot be submitted by the person from whom the request for aid emanates.

- Applications to the EIB can be submitted :
  - through the Commission
  - through a Member State
  - by an undertaking.

- ERDF and Social Fund : Member States and Member States alone can submit applications to the Commission.

- EAGGF - Guidance Section : applications for refunds on expenditure on common and special measures are naturally submitted by the Member States which incur the expenditure. Applications regarding individual projects are also submitted by the Member States.

- ECSC : applications for redevelopment loans must be submitted through the Member State in question. Undertakings applying for industrial loans submit their applications themselves. Housing loans are also applied for on an individual basis.

3. Timing of Application

The EIB, ECSC, EAGGF-Guidance Section (the last named in respect of individual projects) and the ERDF do not lay down specific deadlines for the submission of applications. It is nevertheless fair to say that applications cannot be submitted once a project has been completed and so must be submitted either before the commencement of work or at the latest while work is in progress.

Regulation No. 2396/71 on the Social Fund nevertheless expressly states in Article 5 (2) that the application must be submitted prior to completion of the project.

Decision No. 73/434 of the Commission of 28 November 1973 (OJ No. L 355 of 24 December 1973) states that the application should be submitted at the latest three months before the completion of operations.

Applications for refunds on expenditure on common and special measures under the EAGGF are submitted after completion of the projects i.e. after the Member States have incurred expenditure.

4. Beneficiary's Commitment - Participation of the State

The only rules stipulating that the beneficiary must bear a minimum proportion of the financial outlay on a project are those governing EAGGF-Guidance Section aid for projects to improve structures. As far as projects to improve production structures are concerned, the beneficiary must himself provide a minimum of 20% of the cost of the investment. In the case of projects to improve marketing structures the beneficiary's financial contribution must be at least 38%.

The other financial instruments have no other specific rules of this sort.

However, a contribution of one sort or another is generally required of Member States on whose territory the projects are located.

- EIB : Article 18 (3) of the Protocol appended to the EEC Treaty on the Statute of the European Investment Bank states that "when granting a loan to an undertaking or to a body other than a Member State, the Bank shall make the loan conditional either on a guarantee from the Member State in whose territory the project will be carried out or on other adequate guarantees". Recourse to a guarantee is thus only one of the options open to the borrowing party.

- The ECSC has a similar system in practice.

- ERDF - The ERDF only grants aid to projects which also receive a financial aid from the Member State in question. The amount of aid from the ERDF cannot be more than that provided by the Member States. For investment projects in the industrial, crafts or the service sector, the ERDF cannot provide more than 50% of Member States' Regional aid. As far as infrastructure investments are concerned, ERDF aid cannot exceed 30% of the expenditure incurred by the public authorities.

- The Social Fund is restricted in the same kind of way. If expenditure is borne by a Member State, then the Social Fund provides 50% of this expenditure. If the project is executed by a body governed by private law, then the Social Fund's contribution is the same as that of the Member State.

- EAGGF - Guidance Section : in the case of common and special measures the Fund reimburses a part of the expenditure incurred by the Member States. As far as individual projects are concerned, Article 18 of Regulation 17/64 states that : "The Member State on whose territory the project is to be carried out shall contribute to the financing of the project". No further details, however, are given.

5. Time of Payment

- EIB : The rules governing the functioning of the Bank do not specify when the loan is granted.

- ERDF : ERDF subsidies are paid out as and when expenses are incurred by the Member States. Member States must duly justify their expenditure.

In practice, payment is made either as work progresses or when the project has been completed.

- Social Fund : payment is made as work progresses.

- ECSC : here too, loans are made on a pro rata basis as work progresses.

- EAGGF-Guidance Section : EAGGF aid for common and special measures takes the form of a refund on expenditure incurred by the Member States. Aid is thus a posteriori. In the case of individual projects, payments are made as and when work progresses.

6. Recipient of Payment

By recipient we mean public or private bodies to whom aid is paid out, even though the recipient is not necessarily the final beneficiary, i.e. the person who has carried out the project.

- EIB : In the case of individual projects, loans are paid either directly to a private or public firm or to a public authority or through a financial institution. Block loans are paid to finance houses which divide up and allocate the sums to individual investments.

- ERDF : ERDF aid is paid either to a State or to a body designated by the State, or else to the EIB if the aid takes the form of interest rebate on a loan granted by the bank.

- Social Fund : The texts on the Social Fund have nothing to state specifically on this point. Applications must, however, be submitted by Member States which act as intermediaries between the parties executing the projects at national level and the Community authorities.

- EAGGF-Guidance Section : refunds of expenditure on common and special measures are paid to the Member States. In the case of individual projects, aid from the Fund is granted "through the agency or agencies appointed for that purpose by the Member State concerned" (Article 22 (1) of Regulation No. 17/64).

- ECSC : payments are made to the borrower.

Comparative table of the regulations governing the operation of the financial instruments

	EIB	ERDF	EUROPEAN SOCIAL FUND	EAGGF GUID. SECT.	ECSC LOANS
- Sectors of activity	- all sectors	. Industry . Crafts . Services + Infrastructure projects in all sectors	- All sectors	- Agriculture	- Redevelopment loans to all sectors - Industrial loans to the ECSC sector
- Type of operations financed	- Infrastructure investments - Investments in all sectors	- Infrastructure investments - Investments in industry, crafts and services	- Vocational training projects + projects to increase mobility between . different areas, and . different jobs	- Vocational training projects - Agricultural investments + Assistance to farmers to enable them to switch production	- Infrastructure investments
- Beneficiary regions	- Any regions may benefit; regional development is however one of the main aims of the EIB	- National regional development areas	- Any regions may benefit but under the new regulations 50% of the allocations have to be earmarked for underdeveloped areas	- Any region may benefit; common measures are taken to help less-favoured farming areas	- Any region may benefit
- Levels of aid (as laid down by regulations) (as a percentage of overall cost)	- Not subject to regulation	- For investments in industry, crafts and services : 20% - For infrastructure investments exceeding 10 MUA : 30% - For infrastructure investments up to 10 MUA : 10% - 30%	- 50% in the case of projects carried out by public authorities - In the case of projects carried out by private bodies the Fund's contribution is equal to that of the public authorities (i.e. up to a maximum of 50% of total cost)	- In the case of individual projects : 25% for marketing structure projects 45% for production structure projects - In the case of common measures : 25% to 65% - In the case of special measures : 50%	- Not subject to regulation
- Percentage of finance actually provided	- 25%	- For investments in industry, crafts and services : 6.96% - For infrastructure investments exceeding 10 MUA : 11.73% - For infrastructure investments up to 10 MUA : 21.9% - For investments in farming areas : 25.51%	- No information available	- Individual projects : . 24.5% for production structure projects . 19.7% for marketing structure projects . 19.3% for structural projects involving production and marketing	- 27%

Comparative table of the regulations governing the operation of the financial instruments (contd.)

	EIB	ERDF	EUROPEAN SOCIAL FUND	EAGGF GUID. SECT.	ECSC LOANS
- parties or projects eligible for aid	- public and private undertakings - public authorities	- public or private undertaking or body	- public admins. bodies governed by public law - joint bodies entrusted with tasks in the public interest - bodies or other entities governed by private law	- individual projects: any public, semi-public or private project - common measures and special measures: Member States	- public and private undertakings but not the Member States themselves or local and regional authorities
- submission of applications (bodies involved)	- the undertaking - through the Commission or the Member State	- Member States	- Member States	- Member States	- redevelopment loans: the Member States - industrial loans: the undertakings themselves
- submission of applications (timing)	- no express provisions	- no express provisions	- prior to the execution of the project	- individ. projects: no rules - special measures: after the measures have been carried out - common measures: after the measures have been carried out	- no express provisions
- contribution of the Member State	- the EIB requires guarantees to cover its loans; these guarantees may be provided by the Member State concerned	- in the case of infrastructure investments : ERDF aid may not exceed 30% of national aid in the case of investments in industry, crafts and services: 50% of national aid	- the ESF share of the finance is the same as that of the Member State involved	- individ. projects: the Member State concerned must contribute to the project, though the extent of the contribution is not specified - common measures and special measures: the EAGGF reimburses part of the expenditure of the Member States	- the ECSC requires guarantees in respect of its loans. These guarantees may be provided by the Member States
- size of payment made	- no express provisions	- aid is provided as the expenditure is incurred	- payments are made as the projects are carried out	- individual projects: payments are made as the work progresses - common measures and special measures: payments are made in arrears	- pro rata payments as the work advances
- recipient of the payment	- single projects: the beneficiaries themselves or intermediary financial bodies - Loans in respect of a number of projects: finance bodies	- the Member State (or a body designated by the Member State) or the EIB in the case of interest rebates	- No express provisions (but, as a rule, the Member States)	- common measures and special measures: Member State - individ. projects: bodies designated by the Member States	- the beneficiaries

CHAPTER II

SUMMARY OF THE VARIOUS WEAKNESSES IN THE OPERATION OF THE FINANCIAL INSTRUMENTS

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A. Introduction

The distribution of payments between the various Member States is an important aspect to be taken into consideration when examining the operational defects which have been noted by a number of different sources. Some of the figures set out in the following table do, in themselves indicate certain anomalies in the allocation of funds, bearing in mind that some of the problems faced by the Member States are much more serious than others.

Table I - Distribution of Community aid to the Member States for the period 1972 - 1976 - Source of aid

(See following page)

TABLE I - DISTRIBUTION OF COMMUNITY AID TO THE MEMBER STATES FOR THE PERIOD 1972 - 1976 - SOURCE OF AID

	EIB		ERDF		SOCIAL FUND		EAGGF-GUID.		ECSC LOANS		TOTAL	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Belgium	59.2	1.47	10.71	1.34	31.33	2.46	65.09	5.70	107.53	3.95	273.86	2.75
Denmark	53.2	1.32	10.29	1.29	36.38	2.85	25.85	2.26	31.07	1.14	156.79	1.57
Germany	541.8	13.42	29.38	3.67	144.22	11.32	279.02	24.43	724.47	26.62	1718.89	17.23
France	747.1	18.50	122.49	15.31	241.40	18.92	237.56	20.80	505.09	18.56	1853.64	18.58
Ireland	164.1	4.06	54.40	6.80	80.88	6.35	34.72	3.04	0.86	0.03	334.96	3.36
Italy	1441.0	35.69	328.25	41.04	363.78	28.57	309.07	27.06	417.01	15.32	2859.11	28.66
Luxembourg	-	-	0.75	0.09	0.17	0.01	3.98	0.35	1.62	0.06	6.52	0.06
Netherlands	62.3	1.54	15.58	1.95	38.93	3.05	73.00	6.39	85.91	3.15	275.72	2.76
UK	968.6	23.99	228.01	28.51	336.28	26.42	113.61	9.95	847.84	31.15	2494.34	25.01
TOTAL	4037.3	100	799.86	100	1273.73	100	1142.00	100	2721.40	100	9974.29	100

In order to give a more accurate picture, particularly in view of the 1973 enlargement of the Community, these figures should be taken together with the annual figures for overall Community aid to the individual Member States.

Table II - Distribution of Community aid to the Member States by year

(See following page)

TABLE II - DISTRIBUTION OF COMMUNITY AID TO THE MEMBER STATES BY YEAR

	1972		1973		1974		1975		1976		1972–1976	
	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%	MUA	%
Belgium	46.73	5.01	22.25	1.67	44.44	2.67	78.37	2.93	82.07	2.43	273.86	2.75
Denmark	-	-	19.66	1.47	36.52	2.20	64.14	2.40	36.46	1.08	156.79	1.57
Germany	275.85	29.60	437.70	32.80	324.18	19.51	259.82	9.72	421.25	12.49	1718.89	17.23
France	261.72	28.09	369.68	27.71	371.69	22.37	448.79	16.80	401.25	11.89	1853.64	18.58
Ireland	-	-	32.38	2.43	70.15	4.22	93.01	3.48	139.42	4.13	334.96	3.36
Italy	315.99	33.91	302.85	22.70	463.61	27.90	828.79	31.02	947.87	28.10	2859.11	28.66
Luxembourg	1.69	0.18	1.01	0.07	0.68	0.04	2.90	0.11	0.24	0.01	6.52	0.06
Netherlands	29.85	3.20	24.23	1.82	53.54	3.22	61.81	2.31	106.27	3.15	275.72	2.76
UK	-	-	124.49	9.33	296.87	17.87	834.51	31.23	1238.37	36.71	2494.34	25.01
TOTAL	931.83	100	1334.25	100	1661.68	100	2672.14	100	3373.40	100	9974.29	100

It emerges from the tables that the UK has been the leading beneficiary of Community aid from the various financial instruments over the last two years. Three-quarters of the aid made available to the UK has come from the EIB and the ECSC, which means that it has taken the form of loans.

For the period 1972 to 1976 as a whole, the main beneficiary of Community aid has been Italy. Italy received 40% of the aid made available by the ERDF. As far as aid from the Social Fund, the EAGGF-Guidance Section and the ECSC are concerned, however, Italy's share of the overall aid is considerably less than 40%. The lower share of ECSC aid can be explained by the fact that coal and steel are not major industries in Italy, but the relatively low figures as regards aid from the Social Fund and the EAGGF are harder to explain. (This point has already been raised in the chapters dealing with the latter two funds.)

Belgium has received sizeable loans from the ECSC because of the difficulties being encountered by its coal and steel industries. It has also received relatively large amounts of aid from the EAGGF.

The aid granted to Denmark varies considerably from year to year. Denmark's share of the total aid made available in 1976 would appear to be very small; a major reason for this is the fact that it received no loans from the ECSC during this year.

The aid granted to Germany varies very considerably according to the fund in question. Germany is the second most important beneficiary of aid from the EAGGF and the ECSC (24% and 26% respectively), but ranks only fifth when it comes to aid from the ERDF.

France's share of the overall aid has gone down considerably : in 1972 it received 28.1% of the overall aid but by 1976 the figure was 11.9%. As far as the overall figures of aid from the individual funds are concerned, however, France's share has remained largely the same. The actual amount of the loans made available to France by the EIB has, however, shown a considerable reduction over the last two years.

The allocations awarded to Ireland are increasing all the time in absolute terms, despite the fact that the amount of aid it receives from the ECSC is negligeable. The sums which it receives in the form of loans from the EIB and aid from the ERDF and the Social Fund are, however, relatively very high when compared with Ireland's average share of aid from the various Community funds.

Most of the aid granted to Luxembourg comes from the EAGGF and the ECSC. The same applies to the aid awarded to the Netherlands whose share of the overall aid remains relatively stable.

B. <u>Weaknesses in the operation of the individual financial instruments over the period 1972 to 1976</u>

In this chapter we will look at the defects which have been noted in the way in which the various funds operate. The question of a possible redefinition of the main aims of the various funds will, however, be dealt with at a later stage.

1. European Investment Bank

The EIB operates in a very flexible way as a result of the fact that the regulations governing its operation provide only a general framework for its work. In order to qualify for aid from the Bank investment projects have to fall into one of three categories : regional development projects, projects designed to modernize or redevelop firms or projects of common interest. The Bank therefore has a considerable amount of freedom of manoeuvre in its work. It does not have to follow policy guidelines or to give priority to particular regions or sectors. The Bank also does not have different systems of scales which would in practice encourage investment in particular regions or particular sectors. Whilst it is true that 70% of EIB loans have been awarded to less-favoured areas, this term has been interpreted in a very broad sense in some Member States (e.g. France and Germany) and the use of a system involving different scales for different areas would probably have led to a greater concentration of aid. There has been a move in the direction of encouraging EIB aid in certain areas by making it possible for the ERDF to provide "ERDF" areas with lower rates of interest on EIB loans. This provision has, however, never been used so far.

The abovementioned provision highlights once again the need to coordinate the workings of the different Community funds. Such formal coordination is particularly necessary in the case of an instrument like the EIB, which, because of its budgetary and operational autonomy, vis-à-vis the Commission, cannot have its work directly coordinated with that of the other funds by the Commission. Direct coordination is possible in the case of the funds managed by the Commission.

Coordination of the work of the EIB with that of the other funds is justified on the grounds of the above-mentioned link with the ERDF alone. It is, however, also a fact that the EIB has granted fairly considerable loans to investment projects in the iron and steel industry which is the domain of the ECSC. Agreement on the priorities in this industry is therefore also necessary.

It is difficult to make any other criticisms of the working of the EIB because of its flexible mode of operation. There are, however, another two points which may be made.

The cost per new job created in individual projects aided by the EIB is very high; it is higher than the equivalent cost in projects aided by the other funds.

The second point is linked to the first. The work of the EIB is limited to financing large-scale projects and it is precisely in such projects that the cost per new job created is very high. Small firms thus find it virtually impossible to benefit from EIB aid. The system of block loans does not go very far towards improving the situation as it presupposes that the intermediary body is in a position to submit applications for loans in respect of a number of small or medium-sized projects at one and the same time. Such a procedure would, at all events, be more cumbersome and slower. Large firms which are able to submit applications for loans without going through an intermediary will therefore be favoured.

2. European Regional Development Fund (ERDF)

The ERDF has only been in operation since 1975. There are, however, a number of points which already give rise to criticism.

First of all, the fact that the budget for the ERDF is determined at three-yearly intervals lead to a de facto reduction in its resources for 1977 because of the inflation in the Community over the last few years. The situation as regards inflation is not sufficiently predictable to enable this three-yearly determination of the ERDF budget to be continued in the future. In view of this the Commission has asked for the Fund's budget to be determined on an annual basis in line with the normal procedure (1). The Commission's request was supported by the European Parliament (2). The Economic and Social Committee

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(1) The Regional Policy of the Community, EC Bulletin Suppl. 2/77, p. 22, point 4.

(2) Resolution of the European Parliament on Aspects of the Community's Regional Policy to be Developed in the Future (OJ No. C 118 of 16 May 1977, p. 54, point 28).

did not, however, support the Commission's view (1).

The system of allocating national quotas leads to a certain inflexibility which presents drawbacks. In the earlier chapter dealing with the ERDF it was noted that the use of quotas in 1977 would bring about both a percentage reduction and a reduction in terms of units of account, in the allocations made to Italy, France, Ireland and the UK, vis-à-vis the 1976 figures. It is, however, in these very countries in which are situated the areas with the most severe development problems in the Community. It would not, however, seem to be advisable to do away with the system of quotas completely as experience with other funds has shown that, if there are no quotas, allocations are not distributed in line with the seriousness of the problems facing the individual Member States. Instead, the countries with the most effective administrations tend to monopolize the aid.

In order to overcome the above drawback, the Commission has proposed that a non-quota section be set up in addition to the quota section (2). This proposal has been approved and reaffirmed by the Economic and Social Committee (3) and the European Parliament. The Parliament

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(1) See Opinion of the Economic and Social Committee of 29 September 1977 on the Guidelines for Community Regional Policy (Doc. CES 901/77) (OJ No. C 292 of 3 December 1977, p.9, point 4.8.) : "As far as budgeting is concerned, special attention should be paid to the ERDF's medium-term aims as an instrument of Community structural policy. It would be therefore more sensible to fix the ERDF's resources initially for a three-year period".
(2) The Regional Policy of the Community, EC Bulletin Suppl. 2/77, p.11, point 26.
(3) Opinion of the Economic and Social Committee, No. CES 901/77 of 29 September 1977 (see (1) above), point 4.5.
Opinion of the Economic and Social Committee No. CES 156/78 of 2 February 1978 supplementing the Opinion of 29 September 1977 on the Guidelines for Community Regional Policy.

has also proposed that the national quotas machinery should be regarded simply as a target (1).

While several proposals have been aimed at raising the ceiling of Regional Fund aid, in practice the average aid granted is considerably lower than these ceilings (particularly with regard to investments in industry and services). In fact, it may be doubted whether a grant of less than 7% of the investment cost constitutes any incentive at all.

There is also the question of the part played by the Member States in submitting applications. The result is a preselection of projects by the Member States, over which the Community has no control. This puts a screen between the beneficiaries and the Community which obscures the Community's regional programme. In its report on the ERDF for 1975 (§ 28), the Commission justified this system by saying that the ERDF does not have enough staff to deal with all the projects that would be submitted to it if there were no preselection by the Member States. Since the number

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(1) Resolution embodying the Opinion of the European Parliament on the Communication from the Commission of the European Communities to the Council concerning guidelines for Community regional policy (OJ No. C 266 of 7.11.77, p. 37, pts. 16 and 17).

of applications is thereby limited, the ERDF is able to make faster decisions. But the system still creates a dependence on the national administrations, which led the ESC to state that : "Requests for aid from the Fund must be processed through the Member States and there is no possibility for the Commission to consider projects which have failed to secure the approval of the respective national governments or to inform the unsuccessful applicants of the reasons for their failure" (1).

Another result of the close link between ERDF intervention and that of the national authorities, whether central or regional, is that there is a delay before the ERDF payments reach the projects concerned. This is because such payments are only made after payment of the national aid which serves as the basis for calculating the ERDF aid. A system of advances has therefore been proposed. We have already mentioned that the system of aid towards the payment of interest on EIB loans is not being used.

Moreover, in its Annual Report for 1974 (§ 41), the Commission pointed out the problems involved in encouraging investment in the services industries. There are two kinds of problems :

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(1) ESC Opinion 1202/76 of 24.11.76 "on the First Annual Report on the European Regional Development Fund 1975 and the Summary Analysis of Annual Information 1976" (OJ No. C 56 of 7.3.77, p. 53, pt. 3.5.)

- finding projects large enough to justify intervention by the Fund;
- implementing projects which will create a sufficient number of new jobs.

But the Commission has apparently not proposed any solutions to the problems.

3. European Social Fund

From a strictly budgetary point of view, the distribution of funds among the various areas of intervention fluctuates from year to year, although this does not always reflect new policies decided by the Commission or Council. Obviously, any reduction in the amount of aid allocated to a certain area must have a harmful effect on the work done in that area.

The procedure for opening new areas of intervention under Article 4 is so cumbersome that it prevents the Community from reacting swiftly to new problems. This procedure is similar to the traditional Community legislative process, under which the Commission submits a proposal to the Council, which decides after consultation with the Parliament and the ESC. Months or even years may elapse between the manifestation of the need for action and the adoption of the Council's decisions. The Commission itself raised this problem in its 1974 Report on the Social Fund (p. 5) : "the fairly demanding procedure which must be followed for the opening of new areas of intervention under Article 4 hinders flexibility in the operation of the Fund, a flexibility which has become more and more necessary as the crisis calls for more and more swift reactions".

Article 5 restricts the possible areas of intervention, and this has always raised problems. The imprecise definition of technical progress and groups of companies sometimes acts as a restraint on applications. Similarly, the difficulty of determining whether an activity comes under the heading of the regions, agriculture, the textile industry or technical progress leads to confusion and makes the priority aims for the areas of intervention under Article 5 unintelligible.

The Social Fund's activity, like that of the ERDF, is linked to and restricted by the national authorities. It can only intervene when the Member States concerned do so, and the amount of its contributions depends on those of the Member States. Furthermore, all applications must be submitted by the Member States regardless of the organization initiating the proposed action (public or private; central, regional or local). The Social Fund contributions are also paid to the Member States. The Commission had deplored the indirect nature of its intervention as early as 1969 (1).

The effectiveness of the Social Fund's intervention is thus completely dependent on the national

(1) Commission Opinion to the Council on the Reform of the European Social Fund (OJ No. C 131, 13.10.69, p. 15).

administrations, as the 1974 Report points out (p. 64) : "regardless of the incentive it gives, it is finally the national administrations who play the decisive role in using the Fund as a means of promotion". The Committee has also drawn attention to the dangers of increasing the influence of the national authorities (1). Moreover, because of the Fund's dependence on the organization and effectiveness of the national administrations, there is a danger that allocations will not be distributed according to the needs of the various Member States (1974 Report, p. 10 : "Without a corrective mechanism, the promotional function of the Fund would automatically tend to favour the most prosperous and well organized States and regions, thus, paradoxically, contradicting its function of redistribution or financial solidarity").

Two facts have confirmed these fears :

- Italy's share of Social Fund allocations is much lower than the amounts it has received from other bodies such as the EIB or the ERDF (in which the quota system has a regulatory effect);

- With the exception of interventions on behalf of the regions under Article 5, the action taken in the developing regions has been inadequate (cf. the section on the Social Fund).

(1) ESC Opinion 480/77 of 28.4.77 on "the communication from the Commission to the Council in connection with the review of the rules governing the tasks and operations of the European Social Fund" (OJ No. C 126 of 28.5.77, p. 6, pt. 3.5.).

Differences in the administrative structures of the Member States could further hinder a more adequate distribution of funds. Some States have a very large number of applicants, which makes it more difficult to coordinate measures and assess their effectiveness. There is a danger that small amounts of aid will be allocated to a large number of recipients. But it is also true that large, comprehensive applications covering all the measures taken by an organization in a financial year are less specific with regard to the job possibilities offered at the end of the proposed training programmes (1973 Report, p. 25 ff). The smaller applications are more specific about their purposes and give a more frequent indication of the jobs offered at the end of the training programme. In general, there are too few applications concerning programmes that lead to definite jobs. Greater priority should be given to this kind of project so that the number of such applications will increase. The ESC urged this step in its Opinion of 28.4.77 on the review of the rules governing the tasks and operations of the Social Fund (pt. 1.14.). In its communication to the Council on the matter, the Commission also insisted on the need to reduce the delays in processing applications and paying the allocations (Doc. COM(77) 90 final, p. 3, pt. 7).

4. <u>EAGGF - Guidance Section</u>

EAGGF's guidance appropriations have never been fully committed since the new EAGGF regulations came into force (Regulation 729/70). The funds were instead placed in reserve to finance the common measures, at the expense of individual projects, whose share of appropriations has increased only sporadically. A large number of projects have had to be turned down every year for lack of funds, even though the Guidance Section's appropriations were not fully committed.

The main weakness in the operation of the Guidance Section is the extremely slow procedure for committing and paying funds, although the reasons for the delay are not the same for individual projects as for special measures and common measures.

However, in all cases the applications are submitted by the Member States. Thus, the speed of the decision-making process depends in part on how efficiently the national administrations submit the applications. Some countries, such as Italy, are very late in submitting applications for payment. As a result, Italy receives far less in payments than it should, given the needs of Italian agriculture (cf. Ch. IV of Part A).

Furthermore, the delays in payments eliminate the incentive effect of the EAGGF aid.

Such delays are a particular handicap to individual projects. Payments all too often are made long after the work has been completed, so that the burden of financing is placed on the beneficiaries until they receive the aid due to them.

The procedure for committing funds for individual projects is thus protracted because Regulation 17/64 allows the Commission up to 15 months in which to make decisions. The delay in payments is further increased by the process of screening the applications and has been criticized by the Committee on Budgets of the European Parliament : "Checks must be thorough, but should not lead to undue delays detrimental to the beneficiaries. If the Commission feels that it is impossible to speed up the screening of applications any further, it could perhaps introduce a system of advances to applicants ... This time-lag entails major changes and cancellations in the decisions to grant aid since many projects have to be abandoned or changed ... It is therefore urgent to improve the way the system works and especially to cut down on delays in payments and on the number of commitments cancelled" (1).

Where common measures are concerned, the responsibility for the delays in making commitments and payments rests almost exclusively with the Member States, since in

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(1) Report drawn up on behalf of the Committee on Budgets on the Fourth Financial Report on the EAGGF, year 1974, submitted by the Commission of the European Communities to the Council and the European Parliament (Doc. PE 70/76 of 10.5.76, p. 20-21, pts. 49, 50, 52).

fact the agricultural structures policy is administered by them. It is the Council which decides on the common measures, and it is up to the Member States to make the appropriate applications. They are responsible for effecting payment of the aid and they then apply for repayment of the subsidies paid to EAGGF. The machinery for special measures is similar to that for common measures. There have been considerable delays both in reaching decisions on the implementing measures and in submitting applications for payment. Some countries are also more efficient than others, as we have seen. Italy, for instance, is very late in submitting its applications, and the common measures funds it has received up till now have been unusually low.

It was this situation which led the European Parliament's Committee on Budgets to express the following opinion in Doc. 70/76 (Pts. 22 and 34) : "Common measures, financed for the most part through the system of refunds to Member States, can only be carried out if Member States submit applications. Although time limits for applications have been extended, applications are still awaited and the amount of expenditure for 1974 is negligible. The introduction of these common measures also depends on the entry into force of the implementing regulations in the Member States and here, too, substantial delays have been noted.

Finally, new common measures are decided by regulations of the Council, which is therefore responsible for extending these measures ... Some of the financing systems used allow Member States and the Council to brake and restrict the use of available appropriations. The Member States, which screen and select applications for aid, and the Council, through lack of political will, bear a heavy responsibility for the underdevelopment of the Community policy on agricultural structures".

In addition, the rate of intervention by EAGGF in common measures varies from 25% to 65%, and there is no real explanation for these variations.

5. <u>ECSC Aid</u>

As with EIB aid, there are no detailed regulations governing ECSC aid, and it is therefore more difficult to comment on the way they operate, which is essentially empirical.

The effectiveness and incentive effect of the ECSC loans have been impeded by the national regional development policies. This was emphasized by the Commission in the Seventh General Report on the Activities of the European Communities, 1973 (p. 203, pt. 232) : "As a result of the aid policies implemented by the Member States to promote investments in regions other than coalmining and iron and steel regions, investors found loans available under the ECSC Treaty less attractive". In other words, all the coal and steel regions are not regional development areas in the eyes of the Member States and do not benefit from the schemes to encourage investment in such areas. Nor, therefore, do they benefit from the regional development aids granted by the Community through certain instruments and in particular the ERDF, whose assisted areas are the same as the national assisted areas. The result is that the benefits offered through the ECSC are less attractive than these other aid schemes.

This state of affairs, deplored by the Commission, cannot be seen as an indictment of the operation of the ECSC loans, but does once again show the need to coordinate the different aid schemes at both Community level and in the Member States. Development regions do not always coincide geographically with those areas requiring help; this results in clashes which can only be resolved by coordinating ECSC measures with national policies.

Paradoxically, the obligatory submission through the Member States of applications for redevelopment loans is justified for reasons of coordination. The ECSC financial report states that under the Treaty applications for redevelopment loans must be submitted to the Commission by the Government of the Member State concerned. The geographical distribution of the loans is therefore largely in line with national redevelopment policies for declining coal and steel regions (1).From such statements it might be concluded that the ECSC measures are coordinated with national redevelopment policies for such sectors, but that they are not coordinated with national regional aid policies; this implies a lack of coordination between national regional development policies and national policies for the redevelopment of the coal and steel sectors!

Certain technical observations may also be made regarding the operation of the ECSC loans. Firstly, the interest rebates are limited to the first five years of the loan without any explanation being given for this. Secondly, the 1976 ECSC Financial Report points out that as far as redevelopment loans are concerned, the reduced rates represent the counterpart of commitments undertaken by the beneficiaries of loans to give preference to workers made redundant in the ECSC industries (1976 ECSC Financial Report, page 25).

In fact, Article 56 of the Treaty already states that the ECSC will finance : "programmes for the creation of new and economically sound activities capable of re-absorbing the redundant workers into productive employment".

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(1) ECSC Financial Reports.

The only difference between the two texts is the idea of preference for ECSC workers; but in any case it would seem reasonable that the loan should only be granted if coal and steel workers benefit from it. The conditions for granting interest rebates do not therefore seem all that precisely defined.

C. Conclusion

A critical examination of the operation of the different financial instruments prompts certain comments with a view to coordinating these instruments :

1) the concept of regional development is taken into account by all the rules for the different financial instruments. Coordination of their measures in this respect presupposes a common definition of the development regions (taking into account the special case of the ECSC);

2) the efficient functioning of these instruments assumes that ideally they follow the same policies, or at least that their policies do not contradict one another or conflict with aid schemes in Member States. A formula resembling that of the regional development programmes for the Regional Fund would represent definite progress in this field if it were applied effectively;

3) if the idea of tackling certain problems by coordinating the measures of the various financial instruments is adopted it implies harmonization of the timing of these measures (commitment and payment of appropriations) with regard to the execution of the projects assisted and, consequently, some harmonization of procedures;

4) the role of the Member States at the different stages of the procedure (submission of applications for commitment and payment, actual payment) should be laid down in general terms, taking account of the need to allow for real or imagined differences between Member States in the efficiency of their national administrations.

These are only rough guidelines for the coordination of the financial instruments.

Table summarizing the weaknesses in the operation of the financial instruments

EIB	ERDF	SOCIAL FUND	EAGGF-GUIDANCE	ECSC LOANS
- no policy for investment in certain regions or sectors; - lack of co-ordination with the ERDF as regards the concept of development regions and the interest rebates mechanism; - no coordination with the ECSC for investments in the steel industry; - high unit cost for job creation; - inadequate aid for small projects.	- triennial fixing of budget means no allowance can be made for inflation; - rigidity of national quota system; - ERDF share too low in the total cost of the investments aided; - slowness of the procedure because of having to go through the Member States; - slowness of payments; - non-use of interest rebate mechanism on the EIB loans; - lack of aid for the tertiary sector.	- anomalies in the distribution of appropriations between the sectors assisted; - slowness in the procedure for determining the areas of intervention pursuant to Article 4; - poor demarcation of the areas of intervention of Article 5; - aid from the ESF limited by the amount of national aid; - slowness of the procedure because of intervention of the Member States; - too many intermediary bodies; - unsatisfactory distribution of appropriations between countries; - few projects involve the creation of jobs.	- anomalies in the granting of appropriations for individual projects; - slowness in the commitment and payment procedures for the three types of intervention (individual projects, common measures, special measures); - slowness in taking of decisions to carry out joint projects; - slowness of the procedure because of the intervention of the Member States; - unsatisfactory distribution of appropriations between Member States; - uncertain effect of measures because of slowness of total procedure.	- effect of measures limited by discrepancies with regional development policies; - slowness of procedure because applications for redevelopment loans have to be channelled through the Member States; - vagueness of criteria for granting interest rebates.

CHAPTER III

CRITICAL STUDY OF THE VARIOUS PROPOSALS FOR THE REFORM AND COORDINATION OF THE COMMUNITY'S FINANCIAL INSTRUMENTS

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A. Introduction

All the institutions (Council, Commission, Parliament, Economic and Social Committee) and socio-professional organizations have affirmed the need to coordinate the Community's financial instruments. Commissioner GIOLITTI has been asked to study ways in which this might be done. At the same time various proposals for reform or coordination have come from different quarters. A few proposals referred directly to general coordination; most, however, were limited to suggestions for reform of just one of these instruments. In addition, some of these proposals have already been implemented as the Council has adopted provisions modifying the operation of certain Funds.

The logical approach for the present study is to examine first the proposals for general coordination and then to look at the proposals for each individual instrument in the light of this overall objective.

B. <u>Proposals for coordinating the financial instruments</u>

Most of the proposals see regional development as the key element in coordination. The primacy granted to the regional aspect of Community policies is generally justified by two closely connected reasons :

a) The smooth functioning and cohesion of the Community are threatened by regional disparities which prejudice the balanced development of the Common Market. The development of the less-favoured regions seems indispensible if any progress is to be made towards economic and monetary union.

b) The paucity of the available financial resources compared with the size of the problems encountered in the different countries means that the Community cannot tackle all these problems but must make a choice, establish priorities. It is right therefore that aid should be concentrated in those regions whose needs are most pressing; to spread the aid too thinly would only lessen its effectiveness.

One possible solution which takes account of the most urgent problems without ignoring the others would be to establish variable contribution rates and intervention criteria based on the fiscal capacity and level of development of each Member State (1). Such a system would undoubtedly involve discussions between the Member States if the problems raised by the fixing of the ERDF quotas are anything to go by. To be effective it would have to be flexible and open to modification depending on development trends in the regions. Such a system would also have to take into account not only present difficulties but also potential or foreseeable problems, e.g. those appearing in certain industrial sectors.

It is in any case clear that a policy of financing by different instruments requires that certain guidelines and priorities be established which can be maintained over a period of time. If the operation of these instruments is to be coordinated, common courses of action will have to be defined and given a firm and lasting basis. This is why several proposals emphasized that in planning Community

(1) Nash Working Party of the Commission referred to by the report drawn up on behalf of the European Parliament Committee on Regional Policy, Regional Planning and Transport on Aspects of the Community's Regional policy to be developed in the Future, PE 35/77 of 6.4.1977, page 39.

action account must be taken not only of Community priorities but also of the guidelines laid down in the Member States (1). One step in this direction has already been made in connection with the Regional Fund. Article 6 of Regulation 724/75 of 18.3.1975 setting up the ERDF made it obligatory for Member States to notify the Commission of their regional development programmes. These should indicate the objectives and means for developing the regions. In addition to these programmes the Member States must give the Commission information about the development of the economic and social situation of the regions and the resources and measures envisaged for these regions.

Establishing a mechanism of this type on a larger scale could be a useful factor in coordinating the Community's financial instruments assuming that programmes could be drawn up covering all the sectors coming under or likely to come under these different financial instruments. It would make it possible to plan operations taking into account Member States' intentions in the same sectors. Such programmes would in fact form the framework of the projected coordination.

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(1) Resolution of the European Parliament on Aspects of the Community's Regional Policy to be Developed in the Future, OJ No. C 118 of 16.5.1977, page 53.

- Opinion of the Economic and Social Committee of 30.10.1975 on the Annual Report on the Economic Situation of the Community, OJ No. C 15 of 22.1.1976, page 15.

- Opinion of the Economic and Social Committee of 29.11.1973 on the Memorandum from the Commission on the Technological and Industrial Policy Programme, OJ No. C 115 of 28.9.1974, page 9.

Such planning should also take account of Community policies and make it possible to reduce inconsistencies in their effect. By way of an extension of this information about the policies pursued in the Member States, a proposal has been made for the compulsory notification of all major investment programmes, as happens in the ECSC (1). Although such a procedure would give the undoubted advantage of more precise and detailed information on the investment policies pursued in the Member States, it would perhaps be excessively optimistic to hope that all the parties concerned would agree to communicate all this information.

All the proposals examined so far describe the framework of the coordination or the means of achieving it without suggesting any precise measures to be taken for the actual operation of these financial instruments (criteria for intervention, levels of intervention, methods of intervention, procedure), nor the types of measure which could result from such coordination.

On the second point Commissioner GIOLITTI proposed the possibility of joint measures through several financial instruments to tackle the same problem.

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(1) European Parliament, Doc. 35/77 of 6.4.1977, op.cit. page 50.

- Resolution of 10.3.1977 embodying the Opinion of the European Parliament on the Draft Fourth Medium-Term Economic Policy Programme, OJ No. C 83 of 4.4.1977, page 29.

Such specific measures could be adopted by the Council, acting on a proposal from the Commission, and would involve coordinated use of the various instruments. "It would, for instance, be possible to have measures in which the ERDF would intervene with respect to certain industrial investments, while the EAGGF would provide assistance for farmers switching to products meeting the requirements of the food industry. The Social Fund, for its part, would part-finance the training of the labour needed for the jobs created by the ERDF investments or even the EIB loan." (1)

This would be more or less in line with the Economic and Social Committee's recommendation of major Community schemes which went beyond the "stages of complementarity and coordination of national policies" (2).

No proposal has been made with respect to the first point, or ways of remedying the imbalance caused by the varying efficiency of the member country administrations. More specific proposals as to the operation of financial

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(1) Record of Proceedings, ESC 147th Plenary Session of 31.3.1977; CES 410/77 of 11.5.1977, page 10.

(2) 25.10.1973 Opinion of ESC on the Draft Council Regulation establishing the ERDF; OJ No. C 8 of 31.1.1974, page 13.

instruments were made when their individual activities were reviewed, and as a result they do not all relate to coordination. If these proposals are to be considered in the light of coordination, the differences and similarities of their operation must be borne in mind. These differences and similarities are described in the first section of Part B.

C. Reforms Proposed for the Individual Instruments

1. European Investment Bank

Few reforms have been proposed owing to the extremely flexible nature of the Bank, which enables it to adjust readily to changes in the economic and social situation in the Community. Amendment by means of regulations is therefore strictly speaking not necessary.

Owing to the abovementioned flexibility, the main problem is that of coordinating the Bank's activities with those of other instruments.

However, it has been complained that the EIB tends to lend too heavily to large firms, to the detriment of small and medium firms. Small loans cannot be applied for separately, but only in a block loan submitted by a financing body which subsequently divides the sums obtained between the small and medium firms covered by the application. The EIB has to give its authorization to the financing body for each sum lent to an individual firm from the block loan. This, and the checks carried out by the EIB, make formalities more complicated for schemes involving small and medium firms than for large firms, which may well be in direct contact with the EIB. To remedy this, it would be possible to delegate some of the EIB's vetting powers to national institutes; no serious dangers would be involved, since the loans are granted against guarantees (generally furnished by the Member States).

The Bank recently introduced new arrangements for a loan to the United Kingdom. This arrangement seems to meet the abovementioned criticisms. The loan in question was granted for small and medium investment in development areas. It involved a mandate contract, under which the EIB designated the appropriate UK ministries as agents of the bank responsible for the grant of loans. Such an agreement, if it reduced EIB vetting and speeded up the procedure, should meet the various criticisms made (2).

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(1) ESC Opinion on Small and Medium Sized Enterprises in the Community Context. Doc. CES 1158/77 of 23.11.1977, page 6.

(2) Agence Europe No. 2351 of 17.12.1977, page 12.

2. European Regional Development Fund

Acting under the first ERDF Regulation, in 1977 the Commission proposed a number of changes in the operating rules of the ERDF. These mainly concerned the following points (1) :

1) ERDF budget to be adopted annually, instead of for three years (as was the case for the first three years). The Council accepted this, but made estimates for the budgets of the next two years.

2) National-quota system to be watered down, but setting up two separate budget heads:

- A quota section, covering financial support for regional development measures of the Member States;

- A non-quota section, covering the financing of specific Community-policy measures having a regional impact.

(1) The Community Regional Policy - New Guidelines; EC Bulletin Suppl. No. 2/77.

3) Establishment of more detailed deadlines for regional development measures. As in the past, the Member States would be required to submit regional development programmes and particulars of the implementation of their regional policies. In the light of these programmes and particulars, the Commission would report every two years to the Council on the social-economic situation and trends in Community regions. The Council would then establish the major objectives of Community regional development, and lay down guidelines for national and Community regional policies;

4) Strengthening of arrangements for ERDF interest rebates on individual and overall EIB loans.

5) Special 50% contribution for infrastructure investments in the most disadvantaged Community regions (Greenland, French Overseas Departments, Ireland, Mezzogiorno, Northern Ireland);

6) Definition of "infrastructures" to be broadened, so as to enable financing of social infrastructures:

7) Changes in procedures for grant of assistance and payments:

- Overall applications to be submitted for schemes involving less than 5 MUA, but referral of draft decisions to ERDF Committee no longer to be mandatory;

- Payment of advances.

The proposals regarding the non-quota section, interest rebates, advances and improvement of development programmes were consistent with the views put forward in various quarters, including the European Parliament and the Economic and Social Committee (1).

The Parliament and the Economic and Social Committee have also proposed involving regional and local bodies, and regional union and trade associations, in the decision-making process (2).

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(1)- European Parliament : report of the Regional Policy, Regional Development and Transport Committee on the Commission Communication to the Council on Guidelines for Community Regional Policy. Doc. 307/77 of 10/10/77, p. 16, 17, 36.

- EP Resolution on Aspects of the Community's Regional Policy to be Developed in the Future, OJ No C 118 of 16/5/77, p. 53.

- Opinion of the Economic and Social Committee of 1 April 1976 on the Regional Development Problems of the Community from 1975 to 1977 and the Establishment of a Common Regional Policy. OJ No C 131 of 12/6/76, p. 86.

(2)- European Parliament, Report of the Regional Policy, Regional Development and Transport Committee on the Commission Communication to the Council on Guidelines for Community Regional Policy. Doc. 307/77 of 10/10/77, p. 7.

- Opinion of the Economic and Social Committee of 1 April 1976 on the Regional Development Problems of the Community from 1975 to 1977 and the Establishment of a Common Regional Policy. OJ No. C 131 of 12/6/76, p. 87.

To give small and medium firms maximum access to Fund assistance, it has been proposed that they should be able to submit combined applications, so that they can meet the criterion of the creation or safeguarding of at least 10 jobs (1).

The Economic and Social Committee has proposed the establishment of arrangements similar to those of the ECSC retraining loans, i.e. some of the jobs created by investment financed by the Regional Fund to be earmarked for disadvantaged workers (young people, women, elderly workers).

It also proposed that ERDF be authorised to intervene in regions outside the present demarcated areas (including urban centres and other unemployment black spots) (3).

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(1) Opinion of the Economic and Social Committee on Small and Medium-Sized enterprises in the Community Context. CES 1158/77 of 23/11/77, p. 11.

(2) Opinion of the Economic and Social Committee on Specific Measures to be taken to help Young and Elderly Workers and Women Resuming Gainful Employment. CES 1188/76 of 25/11/76, p. 19.

(3) Opinion of the Economic and Social Committee on the Annual Report on the Economic Situation in the Community in 1976. CES 1061/76 of 28/10/76, p. 11.

The proposed reforms tackle some of the problems (rigidity of quota system, three-yearly budgets, slowness of payments). But they do not cover a number of points, such as the relatively low level of actual ERDF contributions, the intermediary function of the Member States and the encouragement of job creation in the tertiary sector.

3. European Social Fund

The Council changed the operating rules of the Social Fund by its Decision 77/801 of 20/12/77 and a number of implementing regulations (OJ No L 337 of 27/12/77, p. 1 ff) (1).

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(1)- Council Regulation (EEC) No 2893 of 20/12/77, amending Regulation (EEC) No 2396/71 implementing the Council Decision of 1/2/71 on the Reform of the European Social Fund. OJ No L 337 of 27/12/77, p. 1.

- Council Regulation (EEC) No 2894/77 of 20/12/77, amending Regulation (EEC) No 858/72 on Certain Administrative and Financial Procedures for the Operation of the European Social Fund. OJ No L 337 of 27/12/77, p. 5.
- Council Regulation (EEC) No 2895/77 of 20/12/77, on Operations Qualifying for a Higher Rate of Intervention by the European Social Fund. OJ No L 337 of 27/12/77, p. 7.
- Council Decision 77/801 of 20/12/77, amending Decision 71/66/EEC on the Reform of the European Social Fund. OJ No L 337 of 27/12/77, p. 8.
- Council Decision 77/802 of 20/12/77, amending Certain Decisions adopted Pursuant to Article 4 of Decision 71/66/EEC on the Reform of the European Social Fund. OJ No. L 337 of 27/12/77, p. 10.
- Council Decision 77/803 of 20/12/77 on Action by the European Social Fund for Migrant Workers (OJ No L 337 of 27/12/77, p. 12).

1) The tasks of the Social Fund have not been radically changed. The distinction between Article 4 and Article 5 schemes has been retained. However, no distinction is now made between wage-earning and non-wage-earning activities when determining Fund assistance.

2) The contribution rates are unchanged, but a new clause (Art. 8(3)) specifies a 10% increase for schemes in the most disadvantaged regions (Mezzogiorno, Ireland, Northern Ireland, Greenland, French Overseas Departments).

3) The Decision also gives increased priority to "ERDF regions" - 50% of expenditure is to go to Article 5 schemes in these regions.

4) The Social Fund will continue to help with training and geographical and job mobility but can also contribute - under conditions to be laid down - to maintaining the income of the full and partially unemployed pending their reemployment, to the informing and advising of the unemployed, and to promoting employment in disadvantaged regions.

5) The procedure for the grant of assistance has also been changed. The two main changes are :

a) Member States are to submit an overall application for each field of intervention, half-yearly. These applications are to be submitted two months before the beginning of the half year in which the relevant schemes are to be initiated. Exceptions are only allowed if there are unexpected developments on the labour market, or for applications replacing applications already approved for schemes which have not been carried out.

b) Advance payments are to be made - 30% of the contribution when work starts on a scheme and 30% when the Member State concerned shows that half the scheme has been completed.

6) Each year, the Commission is to lay down guidelines for the management of the Fund in the next three years. These guidelines are to be worked out in the light of the economic and social situation in the Community.

Apart from this amendment of Regulation 71/66, the Council has adopted arrangements to help women aged over 25. To a large extent, these arrangements reflect the proposals made by the Commission (1), the European Parliament (2) and

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(1) Communication from the Commission to the Council in connection with the Review of the Rules Governing the Tasks and Operations of the European Social Fund. COM(77)90 final of 23 March 1977.

(2) Resolution embodying European Parliament Opinion on the Communication from the Commission to the Council in Connection with the Review of the Rules Governing the Tasks and Operations of the European Social Fund. OJ No C 133 of 6/6/77, p. 39.

the Economic and Social Committee, which has also said that the increased-rate contributions should also be given to regions not covered by the new rules (1).

The Parliament has stated that the only way to give the Fund optimum effectiveness and make it the genuine instrument of a full-and-better employment policy is to incorporate Fund measures in a Community master plan embracing industrial, regional and social policies.

The abovementioned set of measures and proposals fails to cover a number of important points mentioned in the previous section, including the slow rate of opening of new intervention spheres under Article 4, a more detailed demarcation of Article 5 intervention spheres and the problem of the intermediary role played by the Member States, which means that the effectiveness of the Social Fund depends on that of the national authorities.

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(1)- Economic and Social Committee Opinion on the Communication from the Commission to the Council in connection with the Review of the Rules Governing the Tasks and Operations of the European Social Fund. CES 480/77, 28/4/77.

- Economic and Social Committee Opinion on the Proposal for a Council Regulation on Transactions benefiting from an Increased Rate of Intervention of the European Social Fund. CES 1039/77 of 26/10/77, p. 3.

(2)- 13/6/74 Resolution embodying an Opinion of the European Parliament on the Commission's Proposal to the Council for a Decision on Action by the European Social Fund in favour of persons employed in the Shipbuilding Industry. OJ No C 76 of 3/7/74, p. 42.

4. EAGGF - Guidance Section

As in the case of the other financial instruments, it has been proposed that area development plans be worked out so that EAGGF operations can be planned and the role of the EAGGF can be defined in relation to other Community policies, in particular regional policy (1). This proposal is in line with the desire expressed on numerous occasions and in various forums for better planning of Community action via the financial instruments, which should also be coordinated with the Member States' programmes.

As has been pointed out above, there have been few proposals concerning specific aspects of the operation of the financial instruments. Certain ideas have, however, been put forward regarding both individual projects and common measures.

With a view to improving the planning of EAGGF activities and fixing certain priorities, the ESC has suggested that preference be given to individual projects forming part of common measures or projects for the restructuring of an entire area (1).

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(1)- ESC Study on the Employment Situation and Employment Prospects in Agriculture (CES 566/77 of 26 May 1977, p. 75).

- ESC Opinion of 26 May 1976 on the Proposal for a Council Regulation (EEC) on a Programme for Restructuring the Non-Industrial Inshore Fishing Industry (OJ No C 197 of 23 August 1976 p. 22).

Furthermore, the European Parliament has suggested introducing a system of advances on account of the time-lag between commitments and payments, which is one of the major defects of this financial instrument (1).

As far as common measures are concerned, the Commission has submitted a whole set of proposals on measures relating to the modernization of farms, cessation of farming, and less-favoured agricultural areas. The principal change proposed is an increase in aid for the two most backward areas, viz. the Mezzogiorno and the West of Ireland. To make the cessation of farming schemes more attractive and hence more effective, the Commission suggests easing certain conditions of entitlement to the premium and giving greater encouragement to allocation of the land released to farms included in farm modernization programmes.

In order to solve the problems peculiar to the West of Ireland, the Commission envisages a new common measure in this region with a view to accelerating the drainage operations. This measure will last 5 years and cost 21 MUA, which would enable the EAGGF to refund 50% of the authorized expenditure (2).

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(1) European Parliament Report drawn up on behalf of the Committee on Budgets on the Fourth Financial Report of the European Agricultural Guidance and Guarantee Fund, year 1974, submitted by the Commission of the European Communities to the Council and the European Parliament (Doc. 70/76 of 10 May 1976 p. 21).

(2) Commission proposals of 25 November 1977 (COM(77) 550 final).

These proposals do not by any means tackle all the problematic aspects of the operation of the Guidance Section. The apportionment of the budget among the various activities is one of the problems for which no solution is proposed. There is no specific proposal for dealing with the slowness of the commitment procedure for individual projects or the problems resulting for certain countries in particular from the fact that the national administrations act as intermediaries.

5. ECSC Aid

There have been no specific proposals concerning the operation of this instrument. However, the ESC has drawn attention to the need to set the objectives for each sector within the context of economic development objectives in general. This overall approach is essential both for the loans to undertakings under Article 54 and for the loans for redeployment of redundant workers under Article 56.(1)

D. Proposals for the creation of new financial instruments

In addition to the suggestions for reform and coordination already examined, there have been proposals for creating new financial instruments.

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(1) ESC Study on the Implementation of a Common Regional Policy (CES 801/73 of 25 October 1973 p. 73).

The Standing Committee on Employment has put forward the idea of introducing not a new instrument in the strict sense of the term but new aids for job creation. (The absence of any further details makes it impossible to assess this proposal) (1).

The Agriculture Committee of the old European Parliament proposed setting up a special agricultural fund "with a view to establishing suitable industries in these agricultural areas" (2), although the conservative group at the time came out in favour of a rural fund to be financed by funds devoted so far to rural development by the EAGGF, the Social Fund and the Regional Development Fund (3). This fund would be used to restructure rural areas, encourage efficient agriculture and facilitate cessation of farming through the creation of local jobs.

The proposal of the abovementioned Agriculture Committee meant setting up an additional fund which would have the same task in respect of certain areas as the Regional Development Fund in respect of the entire Community. If it were able to grant loans it would be in a similar position vis-à-vis the European Investment Bank. Such a fund would further complicate synchronization of the activities of the financial instruments.

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(1) Standing Committee on Employment, Press Release (General Secretariat of the Council of the European Communities, Doc. 1389/77 (Presse 150) p. 6).

(2) European Parliament, Opinion of the Committee on Agriculture on Aspects of the Community's Regional Policy to be developed in the Future (Doc. PE 35/77/An. of 15 April 1977, p. 4).

(3) Agence Europe No. 2230 of 4 June 1977.

A rural fund would in fact seem to be difficult to justify - it would mean replacing the EAGGF Guidance Section by another fund whose scope would overlap the responsibilities of the Social Fund and the Regional Development Fund. If we examine the Social Fund operations connected with the training of farmers, we can see that two categories of operations are involved: operations concerning persons leaving farming (Article 4) and regional operations (Article 5). The Commission has drawn attention to the difficulty of individualizing operations on account of the national vocational training arrangements under which persons leaving farming follow vocational training along with workers from other sectors. Consequently any attempt to isolate such operations at Community level is bound to be ineffective.

Generally speaking, the creation of new financial instruments to operate alongside and overlap existing instruments would further complicate coordination of the operations of the Community's financial instruments. From the practical aspect, it thus seems that the above-mentioned suggestions could best be implemented by making existing instruments more efficient.

E. Conclusion

From the various proposals concerning both the co-ordination of the instruments and the operation of each one individually we can distil the following important points:

1) The need for better planning of the aid from the financial instruments has been heavily stressed. This aid should, moreover be harmonized with Community and national policies. This need could be met by guidelines periodically laid down by the Council (acting on a proposal from the Commission) on the basis of information provided by the States on their development policies. This information would be supplied in the form of development programmes covering all the sectors in which the Community's financial instruments are or could be applied. On this basis the Council could map out guidelines for channelling the aid from the instruments towards similar or at least converging objectives.

2) Commissioner GIOLITTI's proposal providing for coordinated selective action by the various instruments to tackle problems peculiar to certain regions or certain sectors should be adopted as a means of enabling the Community to deal effectively with unforeseen serious situations. This could take the form of a common measure decided by the Council.

3) The slowness with which funds are disbursed by the various instruments has also prompted proposals aimed at remedying this situation. A system of advances would seem to be the most capable of reconciling the requirements of efficiency and verification of expenditure. This has moreover been suggested for several financial instruments.

Reference should also be made to the critical summary given below of the McDougall Report, which contains interesting proposals in the entire field of Community public finance.

CRITICAL SURVEY OF THE REPORT OF THE STUDY GROUP ON THE ROLE OF PUBLIC FINANCE IN EUROPEAN INTEGRATION (COMMISSION OF THE EUROPEAN COMMUNITIES - APRIL 1977) FROM THE POINT OF VIEW OF THE COORDINATION OF FINANCIAL INSTRUMENTS (McDOUGALL REPORT)

The report examines the role of public finance in the reduction of income inequalities at Community level. Such a reduction is considered to be an essential factor in an economic union in which everyone should be able to benefit from the advantages of closer integration. In the various Member States public finance makes an important contribution to the interregional redistribution of income and decreases income inequalities by 40%. Community expenditure reduces these inequalities by only 1%. The report proposes a set of measures designed to diminish standard-of-living disparities between the Member States by about 10% in the initial stage. Redistribution at national level is effected principally by means of income taxes and social security contributions. The Community does not have such resources.

If income inequalities are to be reduced at Community level, there will have to be Community action in the areas of structural and anti-cyclical policies. This will entail the transfer of certain expenditure and revenue from the national to the Community level.

The Community should in particular take more substantial action in the areas of structural policy, anti-cyclical policy, regional policy and employment policy. It could operate through a combination of specific-purpose subsidies and a system of more general transfers.

The report proposes six possible types of measure, various combinations of which should enable the aims to be achieved.

1) More Community regional policy aid.

2) More Community participation in labour market policies.

3) Creation of a Community unemployment fund (a proportion of the social security contributions of persons in work would be paid to the Community, which would part-finance the benefits received by the unemployed).

These first three types of measure would only be part-financed by the Community, so that the Member States would have to bear some of the cost of implementing these policies in accordance with guidelines laid down in outline agreements concluded at Community level.

The third measure would not seem to be very practical, because it would involve the payment of unemployment benefit by two different bodies and would therefore make even more cumbersome the already complex systems in the Member States.

4) A limited budget equalization scheme to bring the fiscal capacity of the weakest Member States up to 65% of the Community average. This would involve limited unconditional distribution of funds to increase the resources of the less-favoured regions with the object of enabling them to provide an adequate level of public services.

5) A system of cyclical grants to local or regional governments which would depend on the general economic situation. The object would be to prevent certain cyclical developments from aggravating regional disparities. Here, too, general subsidies would be involved that would be granted to decentralized authorities on the basis of regional unemployment indicators in particular.

6) Creation of a conjunctural convergence facility to help the weakest Member States cope with acute cyclical problems.

Some of these measures are very closely related to each other, so that they would not all have to be applied simultaneously, but on a selective basis. An effective programme comprising certain of these measures would involve expenditure of the order of 5 to 10,000 MUA per year, so that the Community would need additional financial resources. These could be provided by allocating more VAT revenue to the Community.

The Community should further support certain sectors experiencing difficulties in international trade, mainly by granting loans. It should also promote advanced technologies (this aid should not represent a substantial charge on the Community budget).

In keeping with the principles outlined, the report also makes three observations concerning the organization of the Community's financial instruments:

1) In line with the principle of redistribution, any system of national quotas should be ruled out for specific-purpose aid, although such a system would be conceivable for general financial equalization;

2) Specific-purpose subsidies should be granted by the Community at varying matching ratios (from 20 - 80%) depending on the region, so as to allow for the scale of problems to be tackled.

3) Community aid should be largely automatic so that the Member States are encouraged to gear their assistance to the recipient's efforts, while at the same time being assured of Community support.

Documentation on

ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS

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PART C

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PART C

COORDINATION OF FINANCIAL INSTRUMENTS

1. Policies concerned by the action of Community financial instruments

The financial instruments are used to implement several Community policies. Coordination of their activities presupposes definition of the framework for these activities, that is to say, of the policies concerned by the activities of the financial instruments.

Structural policy is directly concerned by the action of the financial instruments which are all directly or indirectly designed to advance the development of certain sectors of activity by promoting industrial or infrastructure investments or vocational training to match qualifications to jobs.

Economic and industrial policies and the guidelines laid down for them at Community level also influence the action of the financial instruments since per se they condition investment policy. The economic priorities sketched out determine the sectors in which investments are encouraged in the light of the Community's internal economic situation and its place in the world economy.

Social policy and more particularly employment policy is the focus of current concern. It is therefore a crucial factor in decisions on the management of financial instruments:

- at the level of vocational training measures and measures to encourage geographical and vocational mobility which are designed to match supply and demand on the labour market more closely;

- at the level of investments subsidized by the financial instruments for which the job creation element plays an important role in the assessment of the case for and against an investment and its part-financing by the Community, irrespective of the sector concerned.

Regional policy is a key factor in the Community's progress towards Economic and Monetary Union. Its importance is reflected in the activities of the financial instruments. The inequalities in development and consequently in the income of the various Community regions are an obstacle to the balance of trade between these regions. The reduction of these inequalities through industrial development of these regions is therefore of prime importance and explains the significance which is attached to it in the management of financial instruments. Regional policy therefore directly influences the activities of these instruments.

Agricultural policy is closely linked to the activities of the financial instruments. The EAGGF Guidance Section is devoted exclusively to this area and its activities are therefore dependent on agricultural policy decisions.

The imperatives of the free competition policy which govern the Community market must be aligned with the investment aid policies pursued at both Community and national levels since aids granted under these policies may distort free competition. Financial instruments are chiefly concerned by this problem.

Applied research has a more indirect influence on the activities of financial instruments since Community financing in this area relies on specific appropriations. Nevertheless, the technological advances which it brings about, can change the situation in certain areas and may disrupt the competiviteness of the sectors in question.

The policies referred to have the most direct influence on the action of financial instruments, although other policies may also play a role in this area, particularly environmental policy, energy policy and transport policy.

2. Object of coordination

Coordination is undoubtedly necessary at three different levels if the activity of financial instruments is to be effectively harmonized.

a) Coordination of the action of the financial instruments

This is self-explanatory : Coordination of financial instruments has been called for repeatedly and all the Community authorities have recognized the need to make these instruments more effective. Such coordination should make it possible to avoid conflicts between the objectives and actions of these instruments and to clarify their terms of reference. Several areas of conflict have already been referred to previously, as well as the proposals for reform put forward to date. The key areas on which coordination should be concentrated will be dealt with later.

b) Coordination of the action of the financial instruments and the Community policies concerned by their action

The abovementioned policies are closely related to the activities of the financial instruments which are the tools for implementing these policies. Consequently, the guidelines laid down for these instruments must be related to the policies which they seek to implement. Likewise, coordination of these policies is essential in the interests of maximum efficiency.

c) Coordination of the action of the financial instruments and the national policies in the areas concerned

The action of the financial instruments is in practice superimposed on the aid arrangements in force in the Member States. This applies irrespective of the type of aids concerned (regional aids, training aids, investment loans, etc.). Consequently, failure to coordinate the action of Community instruments and national policies in these areas may lead to divergencies and hamper the effectiveness of the two aid systems. This is why the first ERDF Regulation required the Member States to notify their national development programmes to the Commission. These arrangements will moreover be retained in the new Fund organization. The fact that only national development programmes have to be notified is unsatisfactory since it skates over the problem of coordinating all the other national and Community aid arrangements.

3. Coordination of these elements

This three-tier coordination could be achieved by combining four measures :

a) Notification of national programmes in the areas of action of financial instruments

In the present state of the Community it would be futile to hope that the Member States would agree to submit their economic, industrial, structural, social and regional policies to blanket Community-wide priorities. The Community does not hold such sway over the Member States at that level.

Consequently, although such statutory coordination is not feasible, knowledge of the national programmes in these areas is essential to enable them to be taken into account when decisions related to Community financial instruments are being taken. Details would be communicated under the existing ERDF arrangements. Details of forecasts or national programmes concerned by the action of Community financial instruments could also be made mandatory. These arrangements would improve coordination between national and Community policies and consequently the organization of the activities of the financial instruments under these policies.

b) <u>Drawing up - under a Community action programme covering all Community policies - of a more detailed programme relating to policies concerned by the activities of the financial instruments</u>

The Community is already adopting action programmes for key policies (economic, social, competition, etc.).

These programmes should lead to a general Community programme which would take account of the goals, priorities and guidelines laid down in the various areas so as to form a coherent whole. A more accurate periodic overview of the Community's development would thus be achieved. Such a programme should have a more detailed section embodying the policies concerning the financial instruments. The existence of these instruments gives the policies a more concrete content and consequently calls for more precise guidelines. The outline of such a policy already exists in the form of a complementary memorandum to the speech-cum-annual programme which the Commission President delivers before the European Parliament. A general programme, as envisaged here, would presuppose much more precise guidelines on the means and objectives of the various Community policies which would then be under a tighter rein.

c) Establishment on the basis of national and Community programmes of outline action programmes for the five financial instruments

We stated above that the coordination of the financial instruments would require three-tier coordination: financial instruments, Community policies and national policies.

On the basis of the first two components (notification of national programmes and an overall Community programme), it would be possible to draw up an "outline programme" which would gear the action of the financial instruments to these components and organize the activities of the instruments themselves. Each financing decision could be taken in line with the guidelines sketched out by this programme and would be clearly defined in relation to the decisions taken under all the instruments. This programme would contain guidelines for the five instruments and would per se obviate any conflict of objectives. This convergence of objectives alone would not rule out all contradictions : regulations would also be necessary to demarcate the terms of reference of the various instruments and obviate overlapping. Moreover, additional machinery may be required to deal with developments on the economic and social fronts likely to influence or hamper the implementation of the programme.

d) Notification of information on the implementation of these three programmes to allow corrective measures

Reference can also be made here to the ERDF machinery. The Member States would be required to submit annual reports on the implementation of the national programmes which they had notified to the Commission. In the light of this information and the stage reached in implementing Community policies, the Commission could adapt the outline programme to new situations and shifts in national and Community policies.

These four measures would make it possible to establish, for financial instruments, guidelines which would not run counter to national priorities and guidelines for other Community policies. In addition convergent guidelines for the five instruments could be worked out which would of course facilitate coordination.

4. General elements of coordination of financial instruments

a) Coordination of financial instruments is contingent on certain data being compiled identically for all instruments.

- the priority regions (those with the severest development problems) should be mapped out in the same way for all the financial instruments. Otherwise a uniform regional development policy may be impossible. Demarcation should be quite straightforward for the ERDF, the EIB and the European Social Fund. In assessing its regional impact, the ESF's last Annual Report refers explicitly to the ERDF regions. The arrangements under which the ERDF can subsidize interest rates on EIB loans means that both regional development and the development regions must be defined identically for both instruments.

Coordination as regards EAGGF (Guidance Section) and ECSC priority regions raises specific problems because the sectoral aspect of these instruments limits their scope. Nevertheless most of the EAGGF disadvantaged regions are also ERDF regions with the exception of mountain areas in South-Eastern France and Northern Italy.

The first steps have already been made towards harmonization. Regulation 724/75 establishing the ERDF allows it to finance infrastructure projects in disadvantaged farming areas which are also ERDF areas.

Harmonization with ECSC schemes will be even more complicated since several major coal and steel areas are not eligible for ERDF aid, despite the recession in these industries.

A blanket solution could be found by dividing the regions up into several categories related to the scale of the development or reconversion problems affecting them. Aids would be geared to categories. The ESF has already similar skeleton arrangements. The five most disadvantaged areas (Mezzogiorno, Greenland, both parts of Ireland, the French Overseas Departments) qualify for higher aid rates. All Community regions would be covered by this classification but would qualify for Community aids under different conditions. ERDF aid would be restricted to certain categories but the other financial instruments could operate in other regions. The key objections of regional development would be preserved by the differences between criteria, amounts and aid rates laid down. The Community classification should also take account of the way regional aid zones in the Member States are defined. It could be based on criteria such as average per capita income, per capita GNP, unemployment levels, outward migration rates.

- Priority activity sectors should also be defined. The paucity of Community resources in the face of the scale of the structural problems affecting the Community economy makes it necessary to concentrate aid on the most needy areas whose conditions seriously affect the Community economy. This applies first and foremost to those instruments which transcend sectoral limitations (EIB, ERDF, ESF) but it could also determine the scale of aid of the other two instruments (EAGGF, ECSC).

- A common definition of the priority categories of persons and workers would also be desirable. This definition would mainly guide the ESF activities since it is most directly related to persons but new criteria for aid from the other instruments could also be introduced by extending ECSC machinery to them; redevelopment loans are granted on the condition that the proposed investment create new jobs, some of which must be reserved for unemployed persons in the coal and steel industries. Projects to create jobs for the hardest hit categories (e.g. young people, women) could attract higher grants.

- If financial instruments are to be effective, definitions must be flexible and must be capable of being modified and adapted to changes in the Community's economic, social or regional situation.

b) The Commission should have wider freedom of action under the Council outline programmes. These programmes would determine the bounds and the objectives of the financial instruments and the Commission should be given greater independence which would make it possible to speed up the decision-making process. Council decisions would only be required when action outside the outline programmes proved necessary or when the programmes themselves had to be changed. This could make it easier for the Social Fund, the EAGGF Guidance Section and the ECSC Fund to operate.

- Social Fund : Decisions to enter new areas of action under Article 4 of the Decision governing the Social Fund would no longer be taken by the Council following a proposal from the Commission but by the Commission itself. The Council would then have a limited period (two or three months) in which to modify the Commission's decision. If the Council proposed no such modifications within the time limit, the Commission's decision would be considered as definitive. In itself, this procedure would involve nothing original because it would be similar to the machinery provided for in the old Article 203(5) of the EEC Treaty. It would enable the Social Fund to react much more rapidly to changes in the employment situation and avoid excessive delays occurring before action was taken, as has been the case in recent years. It would also mean doing away with the compartmentalization of Fund appropriations under Article 4 of the Communities' general budget. Such machinery would be compatible with Article 127 of the EEC Treaty because the outline programme for the Commission's actions would be binding and therefore constitute an instrument for implementing Treaty Articles 124 to 126, in accordance with Article 127.

- EAGGF Guidance Section : Decisions to undertake new joint measures would be taken following the same procedure as above and would bring the same advantage of increased speed. But, as has already been pointed out, the effectiveness of the joint actions scheme is heavily dependent on the Member States getting on with the appropriate implementing measures. The Member States will still be responsible for the effectiveness of the scheme, although it has been shown that this has led to considerable delays in recent years. Moreover, while some Member States are more efficient than others in this field, the imbalances between different countries' farming sectors may get bigger rather than smaller.

- ECSC Fund : The existence of outline programmes should lead to the disappearance of the procedure whereby the Council must first endorse requests for reconversion loans under Article 56 of the ECSC Treaty involving plans for investing outside the coal and steel industries. The resulting policy coordination would simply make such requests unnecessary.

c) <u>Creation of Joint Intervention Machinery</u>

The Community could follow Commissioner GIOLITTI's suggestion to use several instruments together to tackle a particularly acute problem in a region or sector. An example could be vocational training measures, coupled with a grant or loan for an industrial investment and aid for the building of the appropriate infrastructures. Such an approach would be adopted to alleviate the impact of large-scale factory closures affecting a whole region or of unexpected changes in world market conditions that undermined the competitiveness of a Community industry.

But it would only be for exceptional cases outside the outline programmes, where Council action was needed to give a new impetus. The Council would decide on whether or not to undertake joint intervention and the Commission would be responsible for implementation in accordance with due legal process.

Such a scheme should make things more flexible and avoid over-planning. But for it to be effective, both the Council and the Commission would have to take their respective decisions rapidly.

5. Coordination of Commitment and Payment Procedures

Proper financial coordination requires both common guidelines and common procedures for entering into commitments and paying back loans.

a) Requests for Assistance

1. Having outline programmes should facilitate more direct contacts between the Commission and beneficiaries of the EIB, ERDF, ECSC Fund (including Article 56 loans), the EAGGF and the Social Fund. Officially, the use of the Member States to screen requests is justified for two reasons :

   - The Member States can check that projects fit in with their own policy; and

   - The Commission's administrative machinery would be overstrained if it had to look at all requests.

   The second reason is completely invalid. Administrative difficulties cannot be used to block political and economic needs. Assistance must be provided quickly to be effective, and so there is no need to put in a middle man between the beneficiary and the source of finance. Extra staff could easily be hired to clear the log jam.

As for the first reason, the outline programmes already take account of Member States' policies and priorities, so any compliance checking can be carried out by the Community, who could also see if projects fitted in with EEC priorities.

So, the only possible reason to turn down such simplification would be the political will of the Member States to curb the Community authorities' power of decision, even if this made the financial instruments less effective.

2. However, it would be justified to keep the Member States as middle men for requests for action by the States themselves (joint measures under the EAGGF Guidance Section, vocational training by public corporations under the Social Fund, infrastructure investments by the public authorities using the ERDF and the EIB).

3. To coordinate and simplify intervention measures, the number of intermediate bodies between beneficiary and financial instrument should be reduced to one per region at the most.

In some countries one gets several regional bodies asking for financial aid for one type of operation. This can only hold up the coordination of the work of the different financial instruments. Wherever possible the number of such intermediate bodies should be reduced.

b) The Time to Submit Requests

Requests for aid from the different funds should all be submitted at the same time if coordination is to be feasible.

For Community aid to remain an incentive, requests should be submitted before operations begin. This rule already applies for Social Fund operations and it could be extended to those of the EIB, the ERDF, the ECSC Fund and the EAGGF Guidance Section for individual projects. The only operations that cannot be covered are the joint measures of the EAGGF Guidance Section because there the EAGGF is used to reimburse expenditure previously agreed to by the Member States.

c) Participation Rates

1. The percentages of finance provided by Community funds should be coordinated so that certain sectors are not accidentally given preference. Alignment

of EIB and ECSC interest rates is more or less automatic because of their link with the capital markets, but the incentive effect of such loans is determined by the percentage they provide of the total investment (the "participation rate"). The participation rates of neither the EIB nor the ECSC are governed by strict rules and so they cannot reflect sectoral priorities but there is a strong case for those of the other three funds to be coordinated.

The Social Fund finances half the cost of vocational training programmes undertaken by public bodies, which are mainly directed at persons leaving farming. The EAGGF Guidance Section reimburses 25% of Member States' expenditure under the joint scheme for providing information on working conditions and professional qualifications for persons working in agriculture. This might suggest that priority is given to providing vocational training for persons leaving farming rather than those remaining there, but this is not the case. Similar confusion may arise over the participation rates of the ERDF and the EAGGF for individual projects, so there is a need for such rates to be coordinated.

2. Community aid could be made more effective in reducing inter-regional imbalances with a scheme to vary participation rates according to the region concerned. A start has already been made here because the five most under-developed regions in the Community are allowed to receive a proportionally greater share of their aid from the Social Fund and the EAGGF Guidance Section when certain joint measures are taken. Such a sliding scale of participation rates would be based on the proposed list for ranking Community regions by order of their level of development. Interest rate subsidies for loans would also be geared to the list. With such a scheme it would still be possible to take account of regional policy needs, even if individual funds were linked as a matter of priority to specific policies.

3. Any system of national quotas would be too rigid. It would take insufficient account of the problems peculiar to each region and would limit development measures in certain countries. The existence of a regionally differentiated rates scale should in itself ensure that aid is concentrated more in those regions which need it most.

4. Although requests, which seem justified, have been made to raise the participation rates for some regions, it should be added that some funds

(notably the ERDF) provide much less than their percentage quota, so that the average percentage of aid put in by the Community is well below what it could be. The participation rates should therefore be looked on as targets, and not just as ceilings, if they are to remain an incentive.

5. Similarly, the Community should measure the aid which it grants against applicants' needs and the importance and usefulness of the project involved, and weight it in accordance with the cost of the investments or operations planned, rather than the amount put in by the Member States concerned. The Member State's stake places an economically unjustifiable limit on Community aid that has nothing to do with the investment itself. The rule was laid down to stop Member States reducing their own aid once aid was forthcoming from the Community, and to ensure a convergence of Community and national policies, but the convergence issue would be resolved with the introduction of the outline programmes. Moreover, the "topping-up" system does present some inconveniences since it penalizes those countries or regions which have the most serious economic difficulties. The inadequacy of their own resources would place a limit on Community aid,

although their need would in fact be greater because they would have insufficient means to attract the investments they required.

6. Interest-rate subsidies should be encouraged by an automatic grant that is not dependent on the budgetary limits of the financial instrument concerned.

d) Aid from the Member States

Because of the "topping-up" principle, certain Community fund regulations require Member States to provide some aid for projects. Such a rule should not constitute a restriction on Community aid, as has been said earlier.

e) Payment of Aid

To be effective, aid must be paid promptly when a project is undertaken and the sums necessary to get it going are paid out. Two measures should be taken to achieve this.

1. General use should be made of the system for providing aid from the Social Fund and the EAGGF Guidance Section, whereby an advance is made when work begins and further instalments are paid as it progresses.

2. If aid is to be paid quickly, requests for it must be submitted in good time. The deadlines for submitting requests for payment and reimbursement should therefore be fixed so that the money arrives as work progresses and not after it is finished.

f) Aid Recipients

To simplify procedures and improve efficiency, aid should always be paid directly to those undertaking projects or investments, whether they be public or private concerns. National and Community authorities could continue to be jointly responsible for checking that the work done complies with the project as submitted.

6. Summary Findings

The proposals put forward do nothing more than aim at coordinating the five financial instruments that exist at present. They do not ccver such problems as how to deal with requests from groups of small businesses for ERDF aid, the financing of Community funds or the laying down of Community policy guidelines.

The main suggestions made are :

1. Prepare outline programmes for Community fund activities on the basis of appropriate national and Community policies.

2. Provide information on the implementation of the outline programmes and national and Community programmes.

3. Draw up a list of :

   - Priority sectors;

   - Priority workers and other persons; and

   - Priority Community regions by order of their development or reconversion needs. This list would be followed by all the Community funds.

4. Simplify the procedures for deciding on joint measures by the EAGGF Guidance Section and opening up new areas for action under Article 4 of the Social Fund Regulation by adopting the procedure provided for in the old Article 203(5) of the EEC Treaty, whereby decisions were taken by the Commission with the Council having powers to modify them within a certain time limit.

5. Set up joint intervention machinery which the Council could invoke to use several instruments in harness to tackle situations not covered by the outline programmes.

6. Simplify procedures for entering into commitments and paying back loans by limiting the middle man's role played by the Member States.

7. Allow Community funds to provide proportionally greater aid for projects in under-developed regions.

8. Determine the amount of finance provided by Community funds solely on the basis of the cost of the operations planned.

9. Make it general practice to provide some aid in advance.

Documentation on

ACTION BY THE EUROPEAN COMMUNITY THROUGH ITS FINANCIAL INSTRUMENTS

1972 - 1976

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<u>Part A</u> contains a technical survey of the Community's financial instruments based on official figures in the annual reports for 1972 to 1976. The following are dealt with

- i) The European Investment Bank (EIB)
- ii) The European Regional Development Fund (ERDF)
- iii) The European Social Fund (ESF)
- iv) The European Agricultural Guidance and Guarantee Fund (EAGGF) - Guidance Section
- v) The ECSC Fund.

<u>Part B</u> summarises the features and weaknesses of the different instruments and suggestions made with the intention of improving the way they operate.

<u>Part C</u> contains various observations on the co-ordination of the Community's financial instruments based on the data in parts A and B.

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