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**The Principle of "Additionality"
in regard to the
European Regional Development
Fund (ERDF)
and its application in some
Member States**

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THE PRINCIPLE OF "ADDITIONALITY" IN REGARD TO THE EUROPEAN REGIONAL
DEVELOPMENT FUND (ERDF) AND ITS APPLICATION IN SOME MEMBER STATES

by Anthony Comfort

Summary

"Additionality" has been a major problem in the implementation of the Community's Regional Policy because of the doubts, expressed both by the European Parliament and the Court of Auditors, concerning the real link between the provision of Community resources for regional development and the implementation of projects beyond and in addition to those projects which would have been undertaken by Member States without such Community resources. Thus, although there can be no question that the ERDF has contributed to some financial flows from the wealthier to the poorer Member States, it is not yet evident that these resources have in fact been used to promote the development of less-favoured regions.

This study reviews the application of the principle of additionality in regard to the ERDF by those Member States who have been major beneficiaries from the Fund. (Spain and Portugal are not included because their recent accession to the Community does not allow for sufficient experience to have been gained in their use of ERDF funds.) It also examines the problems associated with defining "additionality" and presents some conclusions and suggestions for improving Community policies in this area.

The document exists only in English. However, the Secretariat will try to satisfy, if possible, the requests of Members who may wish to receive a translation into other Community languages of the whole or a part of the text.

Zusammenfassung

Das Problem der "Zusätzlichkeit" spielte eine wichtige Rolle bei der Verwirklichung der Regionalpolitik der Gemeinschaft, da sowohl das Europäische Parlament als auch der Rechnungshof Zweifel geäußert haben, was die tatsächliche Beziehung zwischen der Bereitstellung von Gemeinschaftsmitteln für die Regionalentwicklung und der Durchführung von Vorhaben über die Vorhaben hinaus betrifft, die von den Mitgliedstaaten durchgeführt worden wären, wenn die Gemeinschaft keine entsprechenden Mittel bereitgestellt hätte. Obwohl es keine Frage ist, daß der EFRE zu einem gewissen Fluß von Finanzmitteln aus den wohlhabenderen in die ärmeren Mitgliedstaaten beigetragen hat, so wird doch nicht auf jeden Fall deutlich, daß diese Mittel in der Praxis auch zur Förderung der Entwicklung der weniger begünstigten Regionen verwendet wurden.

In dieser Studie wird die Anwendung des Grundsatzes der "Zusätzlichkeit" untersucht; dabei wird vor allem auf die aus dem EFRE geförderten Mitgliedstaaten eingegangen werden, die die größten Zuschüsse aus dem Fonds erhalten haben. (Auf Spanien und Portugal wird nicht eingegangen, da sie erst vor kurzer Zeit der Gemeinschaft beigetreten sind und noch keine ausreichenden Erfahrungen darüber vorliegen, wie die EFRE-Mittel in diesen Ländern verwendet wurden). Ferner werden die Probleme im Zusammenhang mit der Definition der "Zusätzlichkeit" geprüft; außerdem enthält das Dokument bestimmte Beschlußfolgerungen und Anregungen zur Verbesserung der Gemeinschaftspolitik in diesem Bereich.

Das Dokument ist nur in englischer Sprache verfügbar. Das Sekretariat wird sich jedoch darum bemühen, der Bitte von Mitgliedern, die möglicherweise eine Übersetzung des gesamten Textes bzw. eines Teils des Textes in andere Gemeinschaftssprachen wünschen, zu entsprechen.

Résumé

La "complémentarité" constitue un problème majeur de la mise en oeuvre de la politique régionale de la Communauté en raison des doutes exprimés à la fois par le Parlement européen et par la Cour des comptes au sujet du lien réel existant entre la mise à disposition de ressources communautaires pour le développement régional et la réalisation de projets dépassant ou complétant les projets qui auraient été entrepris par les Etats membres sans les ressources de la Communauté. S'il n'est pas douteux que le FEDER a contribué à certains transferts financiers des Etats membres prospères vers les Etats membres pauvres, il n'est pas encore évident que ces ressources aient effectivement été utilisées pour promouvoir le développement des régions défavorisées.

La présente étude a trait à l'application du principe de la complémentarité, en ce qui concerne le FEDER, par les Etats membres qui ont été les grands bénéficiaires de ce fonds (elle n'englobe pas l'Espagne et le Portugal parce que l'adhésion récente de ces pays à la Communauté n'a pas permis d'acquérir une expérience suffisante de l'utilisation des ressources du FEDER en ce qui les concerne). Sont aussi examinés les problèmes que pose la définition de la complémentarité. Enfin, l'étude présente des conclusions et suggestions visant à améliorer les politiques de la Communauté dans ce domaine.

Le document n'existe qu'en anglais. Toutefois, le secrétariat s'efforcera de satisfaire, dans la mesure du possible, les demandes des députés qui souhaiteraient obtenir une traduction de l'ensemble ou d'une partie du texte dans d'autres langues de la Communauté.

Resumé

Begrebet supplerings har været et stort problem i forbindelse med gennemførelsen af EFs regionalpolitik på grund af den både af Europa-Parlamentet og Revisionsretten udtrykte tvivl om den reelle forbindelse mellem ydelsen af EF-midler til regionaludvikling og gennemførelsen af projekter ud over og som supplement til projekter, der ville være blevet gennemført af medlemsstaterne uden sådanne EF-midler. Selv om det er hævet over enhver tvivl, at EFRU har bidraget til en vis overførsel af midler fra de rigere til de fattigere medlemsstater, er det således endnu ikke tydeligt, at disse midler i virkeligheden er blevet anvendt til at fremme udviklingen af ugunstigt stillede regioner.

I undersøgelsen gøres der rede for, hvorledes suppleringsprincippet i forbindelse med EFRU er blevet anvendt af medlemsstater, der har modtaget store midler fra fonden; (Spanien og Portugal er ikke medtaget, fordi deres nylige tiltrædelse af EF ikke har gjort det muligt at indsamle tilstrækkelige erfaringer med deres anvendelse af EFRU-midler). Ligeledes undersøges problemerne med at definere begrebet supplerings, og der fremsættes nogle konklusioner og forslag til forbedring af EFs politik på dette område.

Dokumentet foreligger kun på engelsk. Men sekretariatet vil efter evne forsøge at imødekomme anmodninger fra medlemmer, der måtte ønske en oversættelse til andre fællesskabsprog af hele dokumentet eller en del heraf.

Π ε ρ ί λ η ψ η

Η "προσθετικότητα" απετέλεσε σημαντικό πρόβλημα στην εφαρμογή της Κοινοτικής Περιφερειακής Πολιτικής λόγω των αμφιβολιών που εξέφρασαν τόσο το Ευρωπαϊκό Κοινοβούλιο όσο και το Ελεγκτικό Συνέδριο όσον αφορά την πραγματική σχέση μεταξύ της παροχής κοινοτικών πόρων για την περιφερειακή ανάπτυξη και της εφαρμογής των προγραμμάτων πέραν και επί πλέον των προγραμμάτων εκείνων που θα ανέλαμβαναν τα κράτη μέλη χωρίς τους κοινοτικούς αυτούς πόρους. Έτσι λοιπόν, αν και αναμφίβολα το ΕΤΠΑ συνέβαλε στη ροή ορισμένων πόρων από τα οικονομικά ισχυρότερα στα φτωχότερα κράτη μέλη, δεν έχει ακόμη αποδειχθεί ότι πράγματι οι πόροι αυτοί χρησιμοποιήθηκαν για την προώθηση της ανάπτυξης στις μειονεκτικότερες περιφέρειες.

Η μελέτη αυτή επανεξετάζει την εφαρμογή της αρχής της προσθετικότητας σε σχέση με το ΕΤΠΑ από τα κράτη μέλη που περισσότερο ευεργετήθηκαν από το Ταμείο. (Η Ισπανία και η Πορτογαλία δεν περιλαμβάνονται δεδομένου ότι η πρόσφατη ένταξή τους στην Κοινότητα δεν επέτρεψε να αποκομισθεί επαρκής πείρα από την εκ μέρους τους χρήση των πόρων του ΕΤΠΑ). Εξετάζει επίσης τα σχετικά με τον προσδιορισμό της έννοιας της "προσθετικότητας" προβλήματα και παρουσιάζει ορισμένα συμπεράσματα και προτάσεις για τη βελτίωση των κοινοτικών πολιτικών στον τομέα αυτό.

Το έγγραφο υπάρχει μόνο στα Αγγλικά. Η Γραμματεία ωστόσο θα προσπαθήσει να ικανοποιήσει, ει δυνατόν, τις τυχόν επιθυμίες βουλευτών να λάβουν μετάφραση του συνόλου ή μέρους του κειμένου σε άλλες κοινοτικές γλώσσες.

Sunto

La "complementarità" costituisce un problema di rilievo nell'attuazione della Politica regionale della Comunità, dati i dubbi, espressi sia dal Parlamento europeo che dalla Corte dei conti, circa il legame reale esistente tra le risorse della Comunità stanziare per lo sviluppo regionale e l'attuazione di progetti che superano e si aggiungono a quei progetti che sarebbero stati avviati dagli Stati membri senza tali risorse comunitarie. Pertanto, sebbene non vi siano dubbi quanto al fatto che l'FESR abbia contribuito ad alcuni flussi finanziari dagli Stati membri più ricchi a quelli più poveri, non è ancora evidente che tali risorse siano state effettivamente utilizzate per promuovere lo sviluppo nelle regioni meno favorite.

Il presente studio passa in rassegna l'applicazione del principio di complementarità con riferimento all'FESR da parte di quegli Stati membri che sono stati i principali beneficiari del Fondo. (Spagna e Portogallo non sono inclusi, poiché la loro adesione alla Comunità è troppo recente per poter consentire di trarre un'esperienza sufficiente quanto al loro uso degli stanziamenti dell'FESR). Esso esamina altresì i problemi legati alla definizione di "complementarità" e presenta alcune conclusioni e suggerimenti per migliorare la politica comunitaria in questo settore.

Il documento esiste soltanto in inglese. Tuttavia, il Segretariato cercherà di soddisfare, nella misura del possibile, le richieste dei deputati che desiderino ricevere una traduzione in altre lingue comunitarie del testo integrale o di parte di esso.

SAMENVATTING

De toepassing van het "complementariteitsbeginsel" in het regionale beleid van de Gemeenschap blijkt in de praktijk heel wat problemen op te leveren: zowel het Europese Parlement als de Rekenkamer hebben er hun twijfels over uitgesproken of de door de Gemeenschap voor regionale ontwikkeling uitgetrokken gelden inderdaad worden gebruikt voor de financiering van andere projecten dan die welke ook zonder communautaire steun door de lid-staten zouden zijn opgezet. Vast staat weliswaar dat het EFRO heeft bijgedragen tot overdracht van middelen van de rijkere naar de armere lid-staten maar dat betekent nog niet dat deze gelden ook inderdaad voor de ontwikkeling van probleemgebieden zijn gebruikt.

De studie handelt over de toepassing van het complementariteitsbeginsel in de lid-staten die het meest van het EFRO hebben geprofiteerd (Spanje en Portugal komen er nog niet in voor omdat in deze nieuwe lid-staten nog niet voldoende ervaring met het EFRO kon worden opgedaan). Voorts wordt ingegaan op de precieze inhoud van het begrip "complementariteit" en worden een aantal conclusies getrokken en suggesties aangedragen ter verbetering van het beleid van de Gemeenschap op dit terrein.

Het document is alleen in het Engels beschikbaar. De gehele of gedeeltelijke vertaling van de tekst in een andere taal van de Gemeenschap kan worden aangevraagd bij het secretariaat, dat zal trachten hieraan een gunstig gevolg te geven.

Resumen

La "complementaridad" ha constituido un importante problema en la ejecución de la política regional comunitaria a causa de las dudas, expresadas tanto por el Parlamento Europeo como por el Tribunal de Cuentas, en cuanto a la relación real que existe entre el suministro de recursos comunitarios para el desarrollo regional y la ejecución de proyectos que rebasen y complementen los que habrían emprendido los Estados miembros si no hubiesen dispuesto de dichos recursos comunitarios. Así, aunque no se puede dudar de que el FEDER haya contribuido al establecimiento de algunos flujos financieros de los Estados miembros más ricos a los más pobres, no es evidente que estos recursos se hayan empleado de hecho en fomentar el desarrollo de las regiones menos favorecidas.

Este estudio analiza la aplicación del principio de "complementaridad" respecto del FEDER realizada por los Estados miembros que han sido los principales beneficiarios del Fondo (no se ha incluido a España ni a Portugal pues su reciente adhesión a la Comunidad no ha permitido adquirir una experiencia suficiente del empleo de los fondos del FEDER hecho por estos países). El estudio examina asimismo el problema relacionado con la definición de la "complementaridad" y presenta algunas conclusiones y sugerencias para mejorar las políticas comunitarias en este ámbito.

El documento existe solamente en inglés. No obstante, la Secretaría intentará, en la medida de sus posibilidades, satisfacer las peticiones de los diputados que deseen disponer de una traducción de la totalidad o de una parte del texto en otros idiomas comunitarios.

Sumário

A "Complementaridade" é um problema importante na execução da Política Regional Comunitária devido às dúvidas, expressas tanto pelo Parlamento Europeu como pelo Tribunal de Contas, relativamente à ligação existente entre o fornecimento dos recursos comunitários ao desenvolvimento regional e a execução de projectos complementares aos projectos que teriam sido empreendidos pelos Estados-membros sem esses recursos comunitários. Assim, embora não haja dúvida de que o FEDER contribuiu para alguns fluxos financeiros dos Estados-membros mais ricos para os mais pobres, não é, no entanto, evidente que esses recursos tenham sido efectivamente usados para promover o desenvolvimento das regiões mais desfavorecidas.

Este estudo revê a aplicação do princípio da adicionalidade relativamente ao FEDER por parte dos Estados-membros que mais beneficiaram do Fundo. (Espanha e Portugal não estão incluídos porque a sua recente adesão à Comunidade não lhes permitiu a aquisição de uma experiência suficiente na sua utilização dos fundos do FEDER.) Analisa ainda os problemas associados à definição de "complementaridade" e apresenta algumas conclusões e sugestões relativamente ao melhoramento das políticas comunitárias neste domínio.

O documento apenas existe em inglês. No entanto, o Secretariado tentará satisfazer, se possível, os pedidos dos Membros que desejarem receber uma tradução para outras línguas comunitárias de todo o texto ou de uma parte.

Contents

	<u>Page</u>
Summary	2
Preface	4
Introduction	5
The European Parliament and "Additionality"	15
The Situation in Certain Countries of the EC:	
- England and Wales	18
- Northern Ireland	22
- Ireland	24
- Germany	26
- France	28
- Italy	30
- Greece	32
Conclusions	34

Preface

The principal instrument of the Community's Regional Policy is the European Regional Development Fund, established in 1975 with the strong support of the European Parliament. Ever since the entry into force of the first regulation concerning the fund there has been criticism of the nature of the instrument created by this regulation and of the extent to which it can genuinely be considered as an instrument of Community Regional Policy. Subsequent amendments to the regulations have not sufficed to remove these doubts and to counter successfully the criticisms levelled at the Fund, especially by the European Parliament. These criticisms have concerned above all the question of additionality that is the topic of this paper.

The Directorate General for Research considers it useful to submit a paper on the problem of additionality as an aid to future discussion. The document was prepared by Mr Anthony Comfort of the Division for Economic Affairs, headed by Mr Norbert Lochner, with the assistance of a Robert Schuman Scholar, Mr Peter Wallace. Miss Helene Drees also participated in the preparatory work. Any opinions and recommendations contained in this paper are those of the author. They are not necessarily shared or approved by the Members of the European Parliament, nor by the Directorate General for Research or any other of the Parliament's services.

Michael Palmer
Director General

Introduction

1. From the date of establishment of the European Economic Community in 1957 onwards, convergence, that is "harmonious development" by means of the reduction of differences in levels of prosperity between regions of the Community and, especially, of the backwardness of less-favoured regions, has been a primary objective of the Community. It should be noted that this objective was not described in the Preamble to the Treaty of Rome as a reduction of differences between Member States but between regions of the Community and the European Regional Development Fund that was eventually set up in 1975 specifically refers to correction of "the main regional imbalances in the Community". It was however the accession of new Member States in 1973 with severe regional problems that, firstly, brought to the fore the need to reduce the serious imbalances by means of a Regional Development Fund and, secondly, gave greatly increased importance to this field of Community activity with a rising share in the Community's budget.
2. The Council Regulation that established the ERDF in 1975¹ referred to the need to "correct the principal regional imbalances resulting from agricultural preponderance, industrial change and structural under-employment". The objective was slightly modified in the new Council Regulation of 1984 on the ERDF² which stated that the purpose of the ERDF was "to contribute to the correction of the principal regional imbalances within the Community through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions."
3. However, it is sometimes alleged that a major objective of the Fund, not specified in the regulations, is the transfer of resources by means of the Community budget to less prosperous Member States and, even, the partial correction of imbalances between Member States arising from the unequal burden of contributions to the budget and the unequal benefits of expenditure under other Community policies. This "objective" would of course have no relation to the solution of regional imbalances, except incidentally, and would be simply an expression of national interests as seen by national governments represented in the Council of Ministers by

1 Council Regulation No 724/75, OJ L 73 of 21.3.75

2 Council Regulation No 1787/84, OJ L 169 of 28.6.84

their Ministers of Finance. At most such a transfer could be called "financial equalisation" (in French "perequation"), as is practised in some federal states, but it would not be possible to describe this as an instrument of Regional Policy since the budgetary transfers involved between states or regions are not tied to expenditure on particular policies.

4. In consequence, the question has often been raised as to whether ERDF assistance has really provided "additional" or even "complementary"³ resources for the development of the less-favoured regions. It is alleged that in some cases funds from the Community simply replace what national governments would have been obliged to spend in any case in support of their regional policy and that, far from contributing to the solution of regional imbalances in the Community, the ERDF is simply an accounting mechanism whereby the national budgets of some Member States are compensated for past or existing commitments in one particular field of their expenditure, which happens to be regional policy. This is the so-called problem of "additionality", which in turn lies at the heart of the debate on "convergence" and on the future development of the Community. As such, it has been of major concern to the European Parliament, which has referred to the problem in its resolutions on several occasions (see below), and to the Court of Auditors.
5. In its report concerning the financial year 1984,⁴ the Court of Auditors addressed this issue once again. It found in particular that almost all projects for which applications were made to the ERDF had started before a decision was made to grant aid. The report stated that:

"It follows ... that in practice there is no direct relationship between the execution of a given project and the Commission's aid decision. Rather it is the terms attached to the granting of national aid which have a determining impact. It should be borne in mind, however, that the projects that best satisfy the objectives

3 In French "complementarity" is seen as the qualitative counterpart to a numerical additionality, i.e. ERDF spending may be "complementary" to national spending by inducing changes in the nature and type of projects supported even if "additionality" in terms of extra resources remains unprovable

4 OJ C 326 of 16 December 1985. The Annual Report of the Court of Auditors for 1985 does not refer to the issue

laid down by the national authorities and that also meet the ERDF's formal eligibility criteria, are not necessarily the best from the Community's point of view.

There is therefore an imperative need to increase the effectiveness of the Fund as an instrument of the Community regional policy by stressing the additional nature of the aid granted by the Community, both at global level and at the level of individual projects. To this end, the Commission should take all the necessary steps at the level of its management and bring all its influence to bear on the Member States in order to achieve genuine additionality. The new Regulation which came into force in 1985 should give the Commission the opportunity to exert increasing influence on the Member States' regional policies and help to attain the Community's objectives more efficiently. This possibility does exist, as shown by the differences noted between the dates of the commencement of work and the dates of ERDF aid being granted."

6. The apparently cavalier attitude with which some central government agencies treat the structural funds is reinforced in times of budgetary stringency. Current pressures to reduce the resources of the funds to allow commitments under the Common Agricultural Policy to be fulfilled serve to strengthen the impression that regional and social spending are luxuries which can be dispensed with at the Community level since they serve no essential purpose.

- Definition of additionality

7. Additionality can be broadly described as the concept of an increase in total spending on regional policy and regional infrastructure from all sources resulting from an increase in the resources made available for this purpose from the ERDF.
8. The principle of additionality of EC financing requires a political commitment by the Member States to permit EC expenditure which is normally deployed in parallel to national programmes to supplement rather than substitute national expenditure. This means that projects must be funded which would not otherwise go ahead. The EC has made it clear that

Member States should apply the principle having set it out in several regulations; for example, in the preamble to the regulation establishing the ERDF it states that: "The Fund's assistance should not lead Member States to reduce their own regional development efforts but should complement those efforts."

9. It would appear at first sight that the concept of additionality is a well-defined and regulated subject. Unfortunately Article 36 of the current ERDF regulation continues to permit the practice whereby ERDF assistance may remain in the hands of the public authorities as a partial reimbursement of their aid to investment (interpreted by the Commission as aid to industry and services, but in practice applicable also to infrastructure projects); this loophole has allowed what should be a clear commitment on the part of Member States and the Community to leak away into a nebulous and doubtful agreement in principle.

- The Principle of Additionality in Practice

10. The principle of additionality appears to be a very simple concept i.e. EC monies are simply to be added to the amount of national expenditure in favour of the same sector for which the money is given. However, in practice, additionality is both a sensitive matter at a political level, as well as being a complex subject at a technical level. The particular problems that arise are listed below.

a) "Global" or "individual"

11. Additionality can be applied at two levels:

- Global Additionality: ERDF reimbursements are added to the expenditure allocated generally for regional development;
- Individual Additionality: ERDF aid for a project is added to the national aid given for a particular project.

12. The Member States have been able to decide freely which of these two forms they will pursue, and in most cases they have opted for "Global Additionality." The EC funds are usually received by central government rather than directly by the investor. This makes it much harder to decide if additionality is actually being applied and, in fact, in its Annual Report of the Court of Auditors for 1984⁵ the court expressed the view that Global Additionality was being applied in a less than satisfactory manner.

13. Although it is perhaps the only means for ensuring that extra projects do result from ERDF financing, the concept of "Individual Additionality" meets fundamental difficulties: Fund aid for projects is granted only on applications sent to Brussels by national Governments (Art. 22), fund aid can never exceed 55% of the total public expenditure involved in programmes or individual projects (Arts. 7, 11, 20) and projects must be part of a regional development programme (Art. 17.2). The practical result of these requirements is that for all projects public finance from national resources must be assured before applications are sent to Brussels. In very few cases will individual projects be cancelled because of a decision not to afford ERDF support.

14. Furthermore, since individual additionality implies that more individual projects can be undertaken, such projects would normally be lower on a list of national priorities and implicitly likely to produce a lower rate of return. In fact national governments tend to send applications to Brussels for projects high on their lists of priorities to be sure of obtaining ERDF support. This means that the link between ERDF support and particular projects tends to be artificial and tenuous. Insofar as ERDF aid does result in resources being available for certain specific extra projects, these would tend to be border-line cases which national authorities might not otherwise have supported with public funds (although it should be remembered that ERDF criteria are not necessarily the same as national criteria and that low priority on a national list would not therefore necessarily mean low priority for the Community as a whole).

⁵ OJ C 326/1985. Quoted on page 5

15. It has also been suggested that the individual form of additionality could lead to an unmanageable amount of extra bureaucracy. There is already a long delay that is unavoidable in the procedure for first approving projects and then according grant payments in line with progress in implementation. Efforts to ensure that Community funds were separated from national aid for individual projects could result in great problems of coordination and if this separation were to require greater supervision by the Commission of the recipients of its grants then it would be unable to meet this obligation with present levels of staffing.

b) Other problems

16. While Article 43 of the Fund Regulation requires Member States to ensure that amounts received from the ERDF are clearly identified in their budget systems, Member States also tend to include projected EC income in their overall spending plans; it is argued that the extra income from the European Community has allowed public spending on regional policy to be kept at a higher level than would otherwise have been possible, but this practice makes it more difficult to determine if the additionality principle is being applied and especially so in periods of rapid inflation.

17. Even where EC aid is clearly seen to be additional, by allowing an increase in spending on regional policy in one particular Member State in relation to the level prevailing in earlier years, this may be only a temporary phenomenon: theoretically, an addition to the funding available in a given year may be offset by a Member State by the simple device of a corresponding decrease in subsequent years, although this can never be shown in practice.

18. The pursuit of mathematical additionality may be irrelevant in addition to being impossible in a large number of areas, since ERDF spending can have an important qualitative impact and introduce new concepts to the process of regional development. This concept is described in French as "complémentarité" and is distinguished in that language from "additionalité".

19. There is no sure way of knowing what the national level of commitment would have been in the absence of EC funds; it is not possible to know for a particular project failing to attract ERDF support whether:

(a) the government would have made up all of the difference; or

(b) the government would have made up some of the difference; or

(c) the government would have cancelled the project as no EC funds were forthcoming.

The level of expenditure that would prevail in the absence of increased EC funding is completely hypothetical in practice.

20. In some circumstances the application of individual additionality would mean running the risk of public aid to industrial projects exceeding the Community's own ceilings through the accumulation of national and EC monies. Governments will normally offer just sufficient assistance to a potential industrial investor to ensure that a project goes ahead. Adding ERDF aid on top would be both wasteful and possibly against the rules, if too great a proportion of the total investment came from "public" sources. Inevitably this problem contributes to the excessive dominance of infrastructure in the applications submitted by most Member States.

21. EC expenditure must be financed from EC resources; discussion of additionality tends to ignore the negative impact on all regions resulting from the taxation needed to pay for Community expenditure. Although the tax contribution of less-favoured regions is not proportionate to their population and forms only a small part of the aid from the Fund which they receive, they would nevertheless suffer adverse effects both directly from this share of the increased taxation necessary to pay for increased regional spending and indirectly from reduced demand for products of the less-favoured regions resulting from lower disposable income elsewhere in the Community.

- Counter-measures

22. The reader should now be aware of some of the complexities involved. No easy solutions are available to the problem of ensuring additionality. The Commission of the European Communities has seen a partial solution in the greater degree of control and influence afforded by programmes; in its reply to the observations of the Court of Auditors report for 1984 the Commission stated:

"The Commission shares the Court of Auditors' concern that the ERDF may not have produced a real increase in Member States' own regional development efforts. The shift from a project financing system to programme co-financing system should help to increase complementarity and make it more obvious. However, it is clearly impossible to make a mathematical check on global additionality since this would necessarily involve comparing actual regional expenditure by the Member State with what it would have spent if the ERDF did not exist. The Court of Auditors itself admits that global additionality is difficult to verify. The Commission is prepared to consider any ideas the Court of Auditors may have as to a method for verifying global additionality."⁶

23. The remarks made by the Commission do not take us very far but are a salutary reminder of the caution with which the whole subject has to be approached. It could never be a productive exercise to attempt to measure the adherence to the principle of additionality by each Member State. On the other hand, a further factor pushing the Member States in this direction lies in another innovation introduced with the ERDF regulation of 1984 (see page (4)) which involved the replacement of fixed national quotas by indicative ranges for the share of each Member State in the Fund's resources over a three-year period. This makes it more difficult for national governments to include the projected income from the ERDF in their national budgets and thereby treat it as a financial transfer to which they are entitled. The possibility of obtaining considerably more than a State's minimum entitlement (i.e. the lower

6 Court of Auditors Annual Report for 1984; Commission replies, OJ C 326/85, p. 190

percentage of the indicative range) is also a welcome incentive to national governments to present more and better applications than would have been strictly necessary in order to achieve their quota in the past.

24. Nevertheless, it has been observed recently that Community aid should be additional to national government expenditure, in the sense of allowing new or expanded projects to go ahead that would not otherwise be possible.⁷ Unfortunately, no way of obliging them to do so has yet been discovered and in this lies the paradox of the additionality principle; it is in general felt that additionality is not being applied and yet there is no cast-iron method that exists to prove that it is not being applied. In some cases it may well be that the granting of ERDF assistance for a specific project to a major investor, such as a national gas distribution agency, will release national resources for lower priority projects. Reliance on such a procedure would leave the question of additionality entirely outside the control of the Community's institutions. Furthermore, if the true impact of Community aid is indirect - via the facilitation of projects with a lower economic rate of return - then it is not obvious that this is a desirable consequence, whether for the Community as a whole or for the Member State concerned. Insofar as commercially unjustifiable projects are thereby allowed to proceed, ERDF grants will be contributing to a waste of both Community and national resources.
25. The recent shift to a programme co-financing system under the revised 1984 ERDF Regulation may help to make it more obvious if the principle is or is not being applied but the 1984 reforms may not be as helpful in this respect as was at first hoped. It has been argued that both the previous "Quota system", and the new one are unsatisfactory, due to the large degree of control over the allocation of national shares that the Member States retain.⁸ Even some Commission officials believe that the emphasis on programmes will lead to a reduction in the control of the Commission over spending on specific projects. Much will depend on the reports to be submitted regularly by the Member States concerned.

7 ERDF: An Overview of the 1984 Review with Particular Emphasis on Infrastructure Projects, Planning Exchange, Glasgow

8 H W Armstrong, "The Reform of the European Community Regional Policy", Journal of Common Market Studies, Volume XXIII, No 4, June 1985

26. Greater control for the Commission in allocation of the ERDF between Member States would have helped to reduce the additionality problem. This was rejected by the Council because of the transfer of power to the Commission involved and the role of "Community programmes" in the new regulation as envisaged by the Commission was much reduced. Nevertheless, Article 6 of the ERDF regulation does specify that Member States shall submit an appropriate number of applications in the form of programmes, so that the Commission "may as far as possible guarantee that the share of ERDF aid allocated to programme financing, including Community programmes, is gradually increased to reach at least 20% of the appropriations allocated by the ERDF at the end of the third year" (1987).

* * * * *

The purpose of this paper is to make an inter-country comparison of how those Member States which have a major interest in ERDF spending, and have had some years experience in combining it with national expenditure, apply the principle of additionality of ERDF resources when implementing their regional policy (particularly as regards infrastructure investment).⁹ Some general conclusions are drawn in regard to how the situation could be best improved so as to ensure a more generally-agreed application of this principle.

⁹ Spain and Portugal are therefore excluded from the scope of the paper, together with Belgium, Denmark, Luxembourg and the Netherlands, all of whom receive less than 1% of ERDF resources

The European Parliament and Additionality

27. The Parliament's Committee on Regional Policy and Regional Planning has examined the problem of additionality and the ERDF on many occasions in its reports. The last of these was adopted in the context of the revision of the 1975 regulation on the fund¹⁰ but this succeeded an earlier report on the same subject.¹¹
28. The rapporteur for both reports was Mr DE PASQUALE, who has been President of the Committee since 1979. In his second report, adopted by the Committee on 21 March 1984, Mr DE PASQUALE proposed a new article¹² in the Fund regulation which would have read as follows:
- "The Fund's contribution ... must be in addition to the aid granted by the national public authorities, subject to the rules of competition. In any case the financial contribution of the Member State in the areas concerned must be increased by the amount of the Community contribution."
29. The report, including this amendment, was adopted in plenary on 13 April 1986, but, together with many other amendments proposed by Parliament, this proposal was rejected by the Council. In regard to programmes, a Parliament amendment requiring for Community programmes that there should be included in the latter financial estimates "making it clear that the Fund's contribution represents an overall additional financial effort to assist the regions and areas affected by the programmes" was similarly also rejected. Even the Commission's original draft regulation, which referred in the context of "national programmes of Community interest" to the inclusion of a forward financing plan "highlighting the fact that Fund assistance takes the form of an overall supplementary financial contribution in favour of the regions or areas concerned" was changed by the Council to omit any reference to a "supplementary" effort (Article 12(e) of the regulation now refers only to "the various sources of national and Community finance").

10 Doc 1-86/84 A + B

11 Doc 1-61/82 A + B

12 Proposal for new article 35a

30. Although on the question of additionality the Council gave no satisfaction to the Parliament in the text of the regulation, the conciliation meeting held on 19 June 1984 (the same day as that on which the Council adopted its regulation) did result in a joint statement which refers to the matter. The Council, Commission and Parliament stated at the end of this short document that:

"As a rule, ERDF aid constitutes an additional global source of financing to promote the development of the beneficiary regions or areas."¹³

31. More recently, in its resolution on the Tenth Annual Report on the activities of the ERDF, based on a report by Mr MUSSO for the Committee on Regional Policy and Regional Planning,¹⁴ the Parliament (point 16 of the resolution):

"Recognises that the availability of ERDF aid will in many cases have made it possible to finance schemes that could not otherwise have gone ahead, even where the share of ERDF money is relatively low; concludes that the influence of the ERDF on the economy of the regions is far greater than its allocation of appropriations alone would suggest; hopes that, with the application of the new ERDF Regulation (No. 1787/84), the Commission will be able to evaluate and publicise this influence; notes further that the conditions which the Community attaches to the grant of ERDF aid have a significant influence on the shape of the regional policy of the Member States but that this influence would be greater and more effective if the principle of additionality were fully implemented;"

and later on in the same resolution (point 25), the Parliament:

"Notes that, while the report contains much statistical information on the first ten years of operation of the Regional Fund, it is short on qualitative assessments of this period; believes that in implementing the new Regulation the Commission must place greater emphasis on ensuring that Community expenditure is genuinely additional to

13 PE 90.520, not published in the OJ

14 EP Resolution of 8 September 1986; Doc A2-76/86

national expenditure and considers, in this connection, that a greater effort should be made to finance new projects and not, as is too often the case, projects that are close to completion or even completed."

Commissioner PFEIFFER stated in the debate on this report that the points of view expressed in the resolution were shared by the Commission, in particular with regard to the problem of additionality.

32. On 30 January 1987, the Committee on Regional Policy and Regional Planning heard a statement by Mr MIDDELHOEK, Member of the Court of Auditors responsible for regional policy. This was the first occasion on which a direct exchange of views was held with the Court of Auditors. Additionality was a major theme of Mr Middelhoek's speech and of the response of Dr SOLIMA, Director of Development Operations at DG XVI (Regional Policy) of the European Commission. The essence of the discussion is taken up at various points in this study, but Mr Middelhoek was notably critical of the Commission for its lack of persuasiveness in bringing the Member States to treat additionality more seriously and of the Member States themselves, whose defence of their policies in this regard were, as he put it, "short on substance".
33. The Members of the European Parliament have also put various parliamentary questions to the Council and Commission on the subject of additionality and the ERDF. The latest of these¹⁵ was put down by Mr NEWMAN and evoked the response from the Council that the present legislation on the ERDF provided for grants to remain in the hands of public authorities as partial reimbursement for aid granted by them and that the Council had received no proposal from the Commission to review existing arrangements.

15 H-176/86, answered by Mrs CHALKER, President in Office of the Council, on 7 October 1986. Earlier questions include those of Mrs EWING (H-218/79) to the Commission (EP Debates No. 248, p. 230), of Mrs QUIN (H-294/80) to the Council (EP Debates No. 260, p. 168), of Mr GERONIMI (Written Question No. 2198/83) to the Council (OJ C 152/84, p. 29) and of Mr VANDEMEULEBROUCKE (Written Questions No 2092/84 and 2727/85) to the Commission (OJ C 214/85, p. 10 and C 314/86, p. 7)

The Situation in Certain Countries of the EC

England and Wales

34. It is not possible to describe the working of local government in the United Kingdom as a whole, since there are differences in the structure and decision-making framework between England and Wales, Scotland and Northern Ireland.
35. In England and Wales EC affairs are handled by UK Central Government departments. In the context of the ERDF, infrastructure projects are the responsibility of the Department of the Environment (in Wales the Welsh office), while industrial projects are the responsibility of the Department of Trade and Industry. The latter department however takes the lead on regional policy as a whole, which is conceived in the United Kingdom principally as "Regional Industrial Policy" and not as the correction of weaknesses in regional infrastructure.
36. England and Wales contain 53 large county authorities, within which there are 369 smaller district authorities. County Councils are responsible for matters involving planning over a wide area, or which require a large amount of resources. District Councils tend to have control of functions which have a more local significance e.g. housing and refuse collection.
37. Applications to the ERDF concerning infrastructure projects and the grant claims that follow them are coordinated by the Department of the Environment's (DOE) regional offices or by the Welsh Office. These regional offices liaise with local authorities and other regional bodies and then pass on applications for infrastructure projects under the ERDF to London. The Regional Policy Division at the main DOE office then prepares grouped applications for Brussels, and projects are submitted four times a year on a regional group basis. Small projects are grouped together on a geographical basis and presented in a global form, whereas bigger projects are put in separately and may be submitted at any time. As required by the ERDF regulation, grants are made against actual payments and not for expenditure which may be undertaken in the future.

38. In regard to local authority finance, current expenditure is financed from a combination of central government grants (mainly Rate Support Grant) and local rates (basically a tax on land and buildings), while capital expenditure is in the main financed by borrowing, but with part coming from grants and other income.
39. ERDF finance is limited to capital investment schemes which are fully committed and already started, or on which expenditure will be incurred in the same year as the application. Local authorities therefore use ERDF funds received to reduce the amount that they need to borrow to finance existing projects, with the result that interest charges and debt service costs (which would otherwise have to be paid) are reduced. However, in many cases this may be too complicated to make the preparation of applications for ERDF funds a cost-effective exercise for local authorities.
40. Payment of ERDF grants is effected by transfer from Brussels to the United Kingdom Central Government, which then distributes the funds to the relevant local authorities. Grants received from the ERDF are deducted from each authority's capital allocation from the central government. In general, ERDF grant support is not taken into account for forward planning purposes and as such does not influence the location, level or type of projects undertaken.
41. The fact that it is central rather than local government which directly receives the funds from Brussels gives rise to a certain amount of controversy concerning the additional nature of the funds, since the net impact of an ERDF contribution on investment in the region concerned will be nil if central government treats the monies obtained from the ERDF as a replacement for national public expenditure.
42. There is disagreement concerning the real level of EC funds received by the central government that is passed on (i.e. net of the national contribution) and this has led to calls being made for increased local government involvement in both representations to the EC and the receipt of EC monies.

43. In regard to "programmes", both British local authorities and the Commission have encouraged the emergence of a "programme approach" as a means of moving towards genuine additionality in ERDF-supported projects. In the early 1980s, the British Government had been opposed to the involvement of local authorities in the preparation of the first "non-quota programmes" (which are now known as "Community programmes") and had strongly resisted attempts to make the expenditure involved "additional". Although the importance of these Community programmes in the new ERDF regulation is not as great as was intended by the Commission, the British Government has taken the lead in presenting "national programmes" and even organised a seminar for government representatives from other Member States on this subject during 1986.
44. In regard to aid for industrial projects, the UK Government continues to argue that ERDF grants are additional because they allow the level of regional industrial support afforded by Member States to be maintained (if not increased), but admits that receipts for such projects are used to provide partial reimbursement of aid already paid by the UK. Similarly, for infrastructure projects, the government admits to a recent cut in national resources made available for regional policy but implies that the reductions would have been even greater without the ERDF. In the House of Commons on 8 May 1984 the Minister of State at the Department of Trade and Industry stated that "the (British) Government take into account the expected Community contribution in determining their level of expenditure on various programmes, and expenditure ceilings are higher as a consequence than they would otherwise be." This is, of course, not verifiable and the British Government has always treated grants from the ERDF as part of domestic public expenditure and therefore applied corresponding reductions to allocations for capital spending on infrastructure of local authorities that receive such grants.
45. The Minister admitted on the occasion of this recent debate in the House of Commons that applications were made for projects that would probably go ahead even if the ERDF grant was refused, but he ascribed this to pressure from the Commission on Member States to submit applications for concrete projects "that are almost certain to go ahead." He went on to say that "Planning for projects has to be done well before it is known

what ERDF aid will be available, so ERDF receipts passed on to local and public authorities have already been taken into account in the overall level of expenditure."

46. The attitude of the present British Government in regard to its refusal to allow local authorities to increase capital spending when ERDF grants are allocated was shared by its predecessor. In the answer to Mr NEWMAN's question given in the European Parliament on 7 October 1986 and referred to on page 16, the President in Office of the Council quoted the Minister of State at the Department of Industry in 1977 to this effect.¹⁶
47. Finally, it is perhaps worth observing that control of public expenditure in general in the United Kingdom has been particularly strict for many years. Both as a matter of policy and necessity UK governments have sought to restrain the growth of public spending by local authorities as well as central government. The strict limits on capital spending for infrastructure improvement undertaken by local authorities, which in other respects maintain a high degree of autonomy, have no real counterpart in other Member States of the Community.

¹⁶ Hansard, 18 July 1977, Columns 1268/9

Northern Ireland

48. The special status of Northern Ireland within the United Kingdom and, especially, the existence of separate accounts for this region should facilitate the investigation of the additional nature of ERDF contributions. The region has received on average 2.5% of total ERDF allocations for commitment (about 300 million ECU) over the period 1975 to 1984.
49. In 1984 a major share of total financial support for infrastructure projects in the province was provided by the ERDF. Responsibility for these projects rests with the Department of the Environment for Northern Ireland. Industrial projects are the responsibility of the Department of Economic Development in the province.
50. Despite the existence of 26 district councils, major infrastructure such as roads and water supply is the responsibility of central government, as is economic planning. Housing and health are administered by statutory, non-elected bodies. The high degree of centralisation in government and administration of the province in part preceded the "direct rule", instigated in 1972, which substantially curtailed devolution of all such responsibilities to local bodies.
51. As in mainland Britain, capital spending on projects in the province is controlled from London. Applications for ERDF grants pass through central government ministries and, where successful, result in grants being passed back to the relevant department in Northern Ireland. However, they may still be regarded as a partial repayment for the high level of national support given to Northern Ireland, since corresponding reductions in capital allocations for Northern Ireland authorities are made.
52. A report published in 1983¹⁷ attempted to quantify the amount of EC funds disbursed in Northern Ireland which was genuinely additional to financial support from other sources. The report found that in 1981-2 about one third of the total of EC funds made available (£90 million) directly substituted national expenditure and that the other two thirds were of

17 Northern Ireland Economic Council, "Additionality of EC Funds", March 1983

only limited additionality: no off-setting change in nationally-financed expenditure occurred in the short term, but over a longer period the additional nature of the EC funds was doubtful.

53. In regard to the integrated programme for Belfast, the Council regulation on urban renewal in this city¹⁸ specifically provides that:

"The United Kingdom Government shall also provide the Commission with all the information it needs to satisfy itself that the Community aid is additional to the total volume of national expenditure allocated to the investment projects necessary for urban renewal, including the infrastructure projects benefitting from this Community aid. The granting of this aid shall be subject to a finding that it is indeed additional thereto."

54. The UK government has claimed that it is possible to ensure the additional nature of the Community's contribution to this programme because it can reliably predict the level of EC funds over future financial years. However this has not always proved to be the case: a large number of planned starts in the house-building programme in 1983-4 had to be cancelled because EC funds were not forthcoming, contrary to the government's expectations, following the failure of a proposal concerning a special ERDF programme for housing in Belfast to be adopted by the Council. The subsequently approved Council Regulation¹⁹ on urban renewal in the city was not intended to support housing. The minister concerned stated that as a result of the Council Regulation higher expenditure on urban renewal in Belfast was possible but this is not evident from a comparison of expenditure plans issued in 1981 with the subsequent outturn. It continues to appear that any increase in EC spending in the UK is met by limits on the funds available for national expenditure on the programme concerned or related programmes.

55. Nevertheless, in the report to the Council in 1985 on the application of the regulation on urban renewal in Belfast, the Commission has declared itself satisfied with the information provided by the UK on total expenditure in the financial years 1983/4 and 1984/5 and, in particular, with the application of the additionality requirement.

18 Council Regulation (EEC) No 1739/83 of 21 June 1983

19 Com(85)461 final, 2 October 1985

Ireland

56. The republic of Ireland is an exceptional case amongst the member States of the European Community because of the absence of any "regionalisation" of the country, at least for purposes of economic development and the ERDF. The entire country is treated as one region by the Commission, on the grounds that its exceptionally low level of economic development in relation to other Member States requires the whole territory to be eligible for ERDF grants. "Regional policy" is subordinate to a national approach in Ireland and economic development is considered primarily at the national level. The arguments presented by the Irish government for maintaining this state of affairs are however rather weaker now that Greece and Portugal are also members, even though the Irish population of 3.5 million is substantially smaller than that of Portugal or Greece, since in these countries major conurbations are excluded from the areas eligible for ERDF assistance (Athens, Thessalonica and Lisbon).
57. The absence of economic regions in Ireland renders meaningless any discussion of additionality and the ERDF in terms of inter-regional transfers. By its very nature the transfer of ERDF resources to Ireland is an inter-governmental transfer, although via the Community budget. It remains reasonable however to enquire whether these transfers have made possible an increase in infrastructure development and industrial incentives. To this question the answer must probably be yes, since capital expenditure on items eligible for ERDF support, such as roads, have increased more rapidly since the ERDF came into operation than other types of capital expenditure but, given the impossibility of knowing how public expenditure in this and other fields would have developed in Ireland in the absence of ERDF transfers, it is impossible to show precisely to what extent these have made possible additional spending on regional developments. The present climate of strict controls on public spending increases the temptation to reduce national spending in this field more than elsewhere because in the case of Ireland and other relatively poor Member States the Community's contribution already represents a substantial share of the total public resources available²⁰

20 According to Joan Hart in "Regions in the European Community", ed. Keating and Jones, 1985, this share amounted to almost 11% in 1983 for those items in the Irish Public Capital Programme eligible for ERDF support

and a small decline in the national contribution is therefore less noticeable than for other items of government expenditure where the burden is entirely borne by national sources.

58. Since Ireland treats the ERDF as a source of finance for its national development, it is understandable that the Department of Finance is the crucial organ for administration of the ERDF in Ireland and for liaison with the Commission. The Department of the Environment transmits to the Department of Finance projects eligible for ERDF assistance which are executed by the local authorities. Regional Development Organisations exist in each of nine physical planning regions but have no legal status and depend on local authorities and central government for the implementation of development strategies for the regions. Efforts on the part of these organisations and of local authorities to become involved in the operation of the ERDF have failed, because of opposition from the central government departments and because no coordinated approach by local and regional organisations in Ireland has yet been achieved.
59. The impact of the sole non-quota programme - aid for border areas - in terms of providing additional resources for projects in this region sadly remains in doubt. Despite the increased emphasis in the new ERDF regulation on programmes, it is not yet certain whether they will be applied effectively in Ireland, with the full involvement of regional and local organisations.

Germany

60. The Federal Republic is the only Member State with experience of, as its name implies, subnational autonomous regions: the Länder. Under the terms of the Federal Constitution there are three levels of government with clearly differentiated responsibilities - national (Bund), regional (Länder) and communal. However, in Germany regional policy is viewed by both Federal Government and the Länder as being a joint responsibility. A planning committee of Federal and Länder representatives draws up an annual framework of projects intended to improve regional economic structures and establishes rules for regional policy coordination and harmonisation. The aim of regional policy as a joint undertaking is to support particular regions of the Federal Republic by means of investment subsidies financed by the Federal Government and the Länder, but a system of inter-regional financial transfers also operates to the benefit of the poorer Länder.
61. In addition to these resources the Länder of the Federal Republic may obtain finance from the European Regional Development Fund. Since Germany is a relatively prosperous Member State and since eligibility for resource allocation from the Fund depends on the relative seriousness of economic underdevelopment in the areas or regions in which projects are carried out, the financial resources available to Germany from the ERDF are rather small. In fact the regional impact within Germany of CAP spending is considerably more important than either the ERDF or the Social Fund.
62. Under the relevant Community regulation the allocation of ERDF funds is governed by percentage ranges; the range for the Federal Republic is now 2.55% - 3.40%. For each Member State the lower limit of the range constitutes the minimum amount of ERDF resources it is guaranteed if it submits, during the corresponding period, an adequate volume of applications for aid which satisfy the conditions set out in the Regulation.
63. The Federal Republic receives relatively few grants from the Fund in comparison with most other Member States. In 1983, for example, DM 48 million were received for investment to improve economic structures (infrastructure investment) and preserve jobs (industrial infrastructure)

in supported regions of the country. In contrast to the other Member States, in the first ten years of Fund operations the Federal Republic used more than half of all the resources allocated to it for aid to industry.

64. ERDF grants are paid by the European Community directly to the Federal Government, which then passes the aid on to the Länder. The regional distribution of ERDF aid within the Federal Republic is not uniform, but varies according to which Länder apply and from year to year.
65. Theoretically the money could be paid directly to the Länder, as the states enjoy a high degree of financial independence within the Federal Republic and the Federal Government is not entitled to examine or scrutinize Land budgets. The concept of additionality is perhaps therefore more applicable at the Land than the national level since the Federal Government's financial contribution to regional incentives is only a part of the resources expended for this purpose and implementation of the incentives policy is frequently carried out by the Länder. It should be noted that different Länder tend to apply their regional policies in different ways and therefore also to use ERDF grants differently.
66. However, insofar as the national budget is concerned, the additional nature of ERDF grants is somewhat conjectural and in the case of the Federal Republic it is not verifiable. It is quite possible, however, that at the global level these funds from the ERDF are used not as additional funds but rather as a means of recouping expenditure from the federal budget. The Federal Republic would thus support regional policy with funds from its own budget and uses ERDF funds to reduce spending from its budget by replacing them. The money thereby saved in the federal budget can be used again in the following financial year.
67. It must be repeated that this is impossible, or at least difficult, to verify. In the case of the Federal Republic, however, the effects of such a procedure would not be unduly serious, since the funds involved account for only about 3% of all ERDF aid.

France

68. The three different types of local and regional structures are: regions (22), "départements" (160 including the "départements d'outre mer"), and communes (36,934 in 1975).
69. Capital expenditure by local authorities in France is financed largely by grants from central government, in particular the "Dotation globale d'équipement" established in 1983. However, DATAR ("Délégation à l'Aménagement du Territoire et à l'Action Régionale") is responsible on the French mainland for the preparation of both industrial and infrastructure projects that are the subject of ERDF applications.²¹ In some cases the French national contribution to these projects will be financed by the "Dotation Globale d'Equipement", but in many others national agencies such as SNCF (railways) or EDF (electricity) are providing the "matching funds" for projects located in the regions but forming part of national infrastructure networks. In regard to industrial projects the national counterpart to ERDF contributions is the "Prime d'aménagement du territoire".
70. DATAR consults the regional authorities on projects being drawn up in their area but the degree of influence of the regional authorities tends to vary according to the relationship between local and central branches of government in the region concerned. DATAR maintains special regional and rural branch offices in the "préfecture" of the départements but in some cases, it is claimed, the process of consultation has not amounted to more than a formality. The process of devolution to regional councils should lead to a greater involvement of these bodies in regional planning in future. In any case, decisions on which projects to submit as ERDF applications are taken centrally, with payments being made directly by the Commission to the national treasury and then placed on the account of the public agency involved as reimbursement for expenditure undertaken.²²

21 In the "départements d'outre mer" this role is played by the Secretary of State for the Départements et Territoires d'Outre Mer

22 According to a study by the Conseil Economique et Social, these payments are not distinguished in the general budget of the French Republic by destination and no breakdown by ministry is provided. See "L'Apport du FEDER au développement des régions françaises", page 38 in Journal Officiel (France) of 25 July 1984

71. It is not possible in these circumstances to estimate the extent to which ERDF resources are additional in the sense of allowing extra projects to go ahead. It is not even possible to show how French national expenditure on "regional policy" has changed since 1975 because of the great difficulty in separating infrastructure investments intended to promote the economic development of less-favoured regions of France from other, "ordinary", infrastructure projects. The introduction of programmes is however leading to a more intensive process of consultation with regional and local authorities and to a more evident role for the ERDF in the economic development of the regions concerned. The non-quota measures adopted under the 1973 ERDF regulation are implemented in France on the basis of "co-financing" or of a system in which the ERDF contribution is distinct and on the same plane as contributions from the French State. A similar situation applies to "Integrated Development Operations" such as the Mediterranean Programmes and will do so in future for "Community Programmes" under the 1984 regulation.

Italy

72. The process of regionalisation has been taken much further in Italy than in other Member States, with the exception of the Federal Republic of Germany and Spain. It is well known however that the Italian regional authorities have sometimes found difficulty in exercising the functions supposedly devolved to them under the constitution and that membership of the Community has sometimes tended to push responsibility back up to central government.
73. In the field of regional policy Italian regions have claimed that their control over ERDF spending in the regions concerned is inadequate despite their competence in the field of economic development. As in other Member States, applications are processed centrally and the funds are passed from the Commission to central government before being passed to the regional authority responsible.²³ The regional authorities play a major role in the preparation of projects but it has to be remembered that many projects supported by the ERDF are outside their purview because, like in France, they are the responsibility of national agencies, for example, for energy matters.
74. Furthermore, although the Cassa del Mezzogiorno and its successor are responsible only for checking the compatibility of projects submitted with technical criteria (and especially with the requirements of the ERDF regulation), a further step in the procedure in Italy is the intervention by the Ministry responsible for Special Action in the Mezzogiorno which gives a political assessment of the projects and selects those which are to be submitted to the Commission in Brussels on the basis of a rough balance between the regions as well as of the compatibility of the projects with national and regional requirements as laid down in economic development plans.
75. In regard to receipts, it should be said that ERDF support and even transfers from the Cassa del Mezzogiorno for those infrastructure projects that are the direct responsibility of the regions represent only a relatively small proportion of the total spending on infrastructure by the regions concerned, which, in addition to local tax revenue, receive resources directly from the state budget for this purpose, as do Italian

23 The procedure is established by Law 748/75

regions outside the Mezzogiorno. It would appear that funds from the Cassa and the ERDF are genuinely supplementary in relation to "normal" infrastructure spending, but it is impossible to state this with certainty in particular with regard to the projects managed by national agencies.

76. It is however evident, both from the budget of the Cassa del Mezzogiorno and from those of the regions concerned, that ERDF resources are identified separately in regard to forecast receipts. No attempt is made to reduce central government transfers to the regions pro rata to rising receipts from the ERDF but it remains impossible to verify at the global level to what extent these funds replace rather than supplement national spending on the development of the Mezzogiorno.
77. It has been observed that in Italy, as in other Member States which have suffered a rapid rate of inflation in recent years, the availability of ERDF grants has made possible the completion of many projects which would otherwise have been halted because national allocations (calculated on the basis of costs foreseen) were insufficient.²⁴ It is apparently also common practice for local authorities to submit applications for and to start several projects in the knowledge that the funds immediately available are inadequate to complete all of them but in the expectation that ERDF funds will subsequently allow completion.

24 For example, by Dr Solima, Director at DG XVI of the Commission before the EP's Committee on Regional Policy and Regional Planning on 30 January 1987

Greece

78. Most projects supported by the ERDF in Greece concern infrastructure rather than industry, given the large disparity in basic infrastructure between the regions of Greece outside Athens and most of the rest of the Community.
79. Greece is divided into 9 regions and 52 prefectures (nomoi), but the process of regionalisation and devolution to local authorities of responsibility for matters such as regional development has not yet gone very far.²⁵ Although mayors and other local representatives may at present be consulted on economic development in their region through appointed councils, they are involved only indirectly in the preparation of applications for assistance from the ERDF, and the local authorities are not usually even aware of the degree of support to local projects being provided by the ERDF in relation to the finance provided by central government. Individual projects may have been initially proposed by the nomarch (or prefect) in cooperation with the mayors or other local representatives, but the decision on whether or not to support the project is taken at central level and any application for ERDF support emanates from the Ministry of the National Economy. Receipts from the ERDF go straight into the central government's budget.
80. There has, nevertheless, been roughly a 25% increase in regional spending on infrastructure since Greece became a member of the European Community and this can clearly be ascribed to ERDF support. Central government assistance to projects in the Greek regions amounts to only 120% of the funds received from the ERDF.
81. Both national and local economic planning in Greece is the responsibility of the Ministry of the National Economy, which is supposed to draw up a 5-year plan. Such a plan exists but remains at a theoretical level with no ERDF applications yet being placed in the context of this plan. The preparations of the plans necessary for Greece to benefit from the Integrated Mediterranean Programmes is however obliging the Greek authorities to observe ERDF and IMP criteria strictly.

25 A recent law (No. 1622/86 of 14 July 1986) provides for elected assemblies for each prefecture. When these come into existence - perhaps in 1987 - major changes can be expected with much greater local involvement in regional planning

82. The main theoretical beneficiary regions of the ERDF since Greece's accession in 1981²⁶ have been, for infrastructure projects:

West/Central Macedonia	669 million ECU
Peloponnese and West Mainland Greece	238 million ECU
Eastern continental and Islands	140 million ECU
Epirus	158 million ECU
Thessaly	115 million ECU
Crete	109 million ECU.

83. However, it should be noted that the apparent imbalance in favour of Macedonia is linked to certain hydro-electric projects. It might be argued that the benefits accruing from such major investments go more to the country as a whole than to the general economic development of the region concerned.

84. The Athens and Thessalonica areas are excluded for most purposes from the list of regions benefiting from the fund. The question therefore arises of a possible diversion of national resources to these two urban areas, resources which might otherwise have been spent in those regions of Greece which are benefiting from the ERDF. However, there can be no way of checking this and the position is less grave for Greece than other Member States given the relatively small size of the "excluded" areas, even if some of the intended regional redistribution of resources within Greece would be negated by such a diversion.

85. The Integrated Mediterranean Programmes will include the regions of Athens and Thessalonica in their scope, since an Annex to the Regulation concerned²⁷ provides that the whole of Greece is eligible.

26 Up to and including the second allocation of 1987

27 Council Regulation (EEC) No. 2088/85 of 23 July 1985 in OJ L 197/85

Conclusions

86. The problem of "additionality" results from the way in which Community regional policy was conceived. Thus, the continuing high degree of control exerted by central governments of EC Member States over the applications submitted to the ERDF and over the expenditure of the resources that are allocated to them as a result is bound to lead to accusations of the sort referred to in the introduction. Although no final solution can be provided within the present legal framework, it is nevertheless apparent that the exercise of central government control is pernicious to varying extents to the objective of reducing economic disparities between regions of the European Community.
87. Few, if any, other governments go to the lengths of the UK Government which makes a pro rata deduction from national allocations to infrastructure spending by local authorities when ERDF grants are made.²⁸ However, the suspicion remains that all governments receiving funds from Community sources for regional development are tempted to make reductions in the overall level of national spending allocated for this purpose. Such a reduction would mean that the ERDF is not contributing in any direct way to a narrowing of differences between regions or to the Community aim of "convergence" but only to a transfer of resources between governments, although it is true that the size of this transfer is linked to the seriousness of regional problems in the recipient countries. The evidence available suggests that the "replacement" of national by Community spending is least evident, for the countries studied, in Italy and Greece and most likely in the UK and France. However, this impression may also be influenced by the nature of national procedures and regulations which are more "transparent" in some countries than others. In Italy in particular there also seems to exist a risk that the financing of major projects partly through ERDF grants may result in the release of national funds for less attractive, and possibly wasteful, projects, as is discussed in paragraph 24 above.
88. For Member States which already possessed prior to 1975 (or to their accession to the Community) a national regional policy involving major transfers of resources between regions, probably the only way to ensure

28 This is officially described in the UK as no "increase" in the level of capital spending permitted to each local authority

that Community resources add to rather than replace national ones is to reduce the role of central government organs to that of national referee between competing regions or local authorities within the state concerned. Even this role is not an essential one: both the checks on compatibility of projects submitted by local authorities with regional, national or Community plans and the "refereeing" between regions can be done in Brussels. At all costs the situation must be avoided where a particular region or local authority sees its share in national resources reduced when it receives an ERDF grant. This practice removes all incentive from the regional or local authority to prepare good applications. More importantly, the sending and processing of ERDF applications constitutes a useless and expensive bureaucratic exercise unless there is a resultant increase in public spending on regional policy.

89. It may however be argued that since infrastructure spending by local authorities or national agencies represents such a major share of state budgets, central government is obliged to exercise some degree of control because of the implications for macro-economic policy. Yet this argument does not preclude a reduced role for central government in the submission of ERDF applications and the use of the ERDF funds, since a major share of public funds involved in any particular project will continue to be controlled at a national level. In the case of the United Kingdom a reduction in the national ceiling on capital spending by local authorities could also be used to compensate for the loss of control by central government over the submission of projects by local authorities in eligible regions and would enable the system of specific reductions in their borrowing allocations when a project or programme is approved to be abandoned.
90. A major doubt must remain about the desirability of financing one category of ERDF project: that concerned with major infrastructure works carried out in the regions by national agencies (power, water, major roads and so on). Such projects are frequently more concerned with national than local development and the ERDF contribution to such a project does not always contribute to a narrowing of inter-regional disparities. A hydroelectric dam or a major gas pipeline is not an appropriate use of Community resources intended for "regional development" even if the ERDF contribution releases national funds for

other more locally-oriented infrastructure. Even in cases such as, for example, the electrification of rural areas in which the density of consumers would not warrant heavy investments on strictly commercial criteria, the use of ERDF funds to alleviate the burden on the Member States has less to do with regional economic development than with equalisation of opportunity carried out on socio-political grounds just like, for example, the provision of schools and hospitals, items which happen to be excluded from the categories of infrastructure which may be funded by the ERDF (Annex to the Fund Regulation). This financing of spending by national agencies is surely a less desirable use of ERDF funds than productive investments in local infrastructure, services and industry which come under the, at least partial, control of local or regional authorities, and which can serve to increase the potential for internally-generated development.

91. Major reform can probably not be achieved until Article 36 of the ERDF regulation is amended. This article provides for assistance from the ERDF, either to supplement aid granted to the relevant investment by the public authorities or remain in the hands of those authorities "as a partial reimbursement of such aid".²⁹ However, until such time as the possibility of "reimbursement" is abolished, the way forward would seem to lie in favouring projects that result from a high degree of collaboration between local/regional authority, Member State government and the Commission. The joint financing of programmes is indeed the ideal way of achieving such a collaboration and, given the inevitable reliance of the Commission on Member States for checking on the proper implementation of projects, this is probably the only feasible means of ensuring that Community objectives are taken into account when applications are submitted and in advance of implementation of the project concerned. By allowing the Commission some degree of control over the contents of "national programmes of Community interest" and by ensuring that the ERDF resources are being used for specific objectives in coordination with national resources, the new ERDF regulation should permit some advance towards the goal of "additionality". Although this goal may never be achieved in the sense of permitting an identification of an ERDF impact on regional development distinct from that of national

²⁹ OJ L 169 of 28.6.84, p. 14. This article is interpreted by the Commission as applying solely to aid for industry and services, but in practice the same principle is applied for infrastructure projects

regional policies, the programme approach allows the ERDF to influence the shape of national regional spending as well as supplementing total national efforts.

92. The Community programmes provide, of course, for an even greater degree of control by the Commission and therefore a greater assurance of additionality. It is in fields such as the STAR and VALOREN³⁰ programmes, on the one hand, and those programmes seeking to provide alternative sources of employment by such means as improved business services to local enterprises, on the other, that the cause of "additionality" can make most progress.
93. The current discussions concerning the provisions in the Single European Act for "cohesion" and the Commission's proposal for a doubling of the resources allocated to the structural funds give further importance to the problem of ensuring the effectiveness and "additionality" of ERDF grants. It may be that a qualitative improvement in the nature of regional policies as applied in each Member State and a net transfer of resources between governments is the best that can be hoped for from the Community's regional policy as it stands. However, at the very least further efforts need to be made to separate ERDF contributions to regional development from that of national budgets and to keep Community spending outside the restraints imposed by national governments to limit their domestic public expenditure. Only a clear distinction between the two can avoid the situation in which Member State governments are tempted to compensate for national cutbacks by using ERDF funds to plug the gap.

³⁰ Commission Proposals for Council Regulations instituting Community Programmes for the development of certain less-favoured regions by improving access to advanced telecommunications services (STAR - COM(85)836) and by exploiting indigenous energy potential (VALOREN - COM(85)838); EP Reports - NEWMAN (Doc A2-60/86) and GERONTOPOULOS (A2-62/86) for the Committee on Regional Policy and Regional Planning and resolutions of 13 June 1986