The European Economic and Social Committee

The European Economic and Social Committee

EUROPEAN UNION: FUNDING FOR GROWTH

THIS BOOKLET IS PUBLISHED IN:
GERMAN, ENGLISH AND FRENCH

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European Union: Funding for Growth

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INTRODUCTION

This brochure summarizes the most recent proposals for the reallocation of EU structural aid, which includes the three traditional funds - together with the financial instrument in the fisheries sector - and also the Cohesion Fund. The latter provides special support for Spain, Portugal, Ireland and Greece, and has been prolonged. In addition, Agenda 2000 has created an Instrument for Structural Policies for Pre-Accession.

In this way, the European Union is targeting growth and development and aiming for openness against a background that is both better structured and takes more account of the problems of the global economy.

The European Economic and Social Committee issues its opinions on this reallocation of aid - and the new financial package that underpins it - from the point of view of the representatives of organized civil society.

Plenary session of October 98

EXCERPTS OF A SPEECH DELIVERED BY MONIKA WULF-MATHIES AT THE PLENARY SESSION OF THE ECONOMIC AND SOCIAL COMMITTEE

I am very pleased that the Economic and Social Committee will be the first of the European institutions to approve the Commission's proposals for the new Structural Fund regulations when it adopts its opinion at today's plenary session.

In doing so, the Committee is demonstrating that despite different regional, sectoral and national interests it is possible to reach a consensus in Europe about the future of structural policy.

This is an important signal to national governments, the Council and the European Parliament, showing that tactical positions can be overcome and that the necessary decisions are being taken as quickly as possible in the interests of those concerned.

The Committee's section concerned has discussed the Commission proposals in detail and presented a unanimously approved, technically competent and even-handed opinion to the plenary session.

I would like to express my appreciation to the rapporteur, Mr Christie, as well as the section president, Mr Moreland.

At this last plenary session of the Committee's current term I would like to take the opportunity to thank your President, Mr Jenkins, for the successful collaboration between the Committee and the Commission.

As members of the Economic and Social Committee, you have helped considerably over the past few years to bring Europe closer to citizens, not just through the quality of your opinions, but also by acting as an interface between Europe and national governments.

We all know that public debate is still not sufficiently "European", which makes it all the more important for interest groups, trade unions and non-governmental organizations to help make people in the member states more aware of the impact of European issues on the way they live. Your opinions give the lie to all those who maintain that European laws are passed behind closed doors, without the involvement of governments, let alone citizens.

Fifty years of European integration, increasing economic interdependence in the single market, the forthcoming introduction of the single currency - these are things that have come about because of a realization that major problems can only be solved now through joint action.

This is increasingly the case with the fight against unemployment, which the Economic and Social Committee has long been trying to put on the European agenda. So I need hardly to tell you, of all people, that common policies do not lessen the national responsibility of the member states; rather they mobilize more European solidarity to solve common problems. As you rightly say in your opinion on the Structural Fund regulation, our structural policy can and must play a role here.

The whole structural fund reform package upholds the importance of economic and social cohesion for the future. Its priorities focus on cohesion and protecting employment.

Enlargement will not harm the poorest regions: on the contrary, genuine Objective 1 regions will gain from the reform since cumulating Objective 1 and the cohesion funds and targeting Objective 1 funds at the regions which are really poorest will increase support for these regions.

The burden of concentrating resources will be spread evenly and fairly among the member states and will not harm either rural areas or other problem regions.

Generous transition arrangements will make it easier to adapt to the changes in the support system.

The pre-accession package will ensure equal treatment for the candidate countries and will help to promote economic development in central and eastern Europe.

Over the next few months the Austrian presidency will face the difficult task not just of making headway but also of securing approval for the key elements of structural fund reform at the Vienna summit. I am convinced that the Austrian presidency will move the negotiations forward with energy and enthusiasm, and I hope that the negotiators will take the opinion of the Economic and Social Committee into account in reaching their positions.

OPINION

OF THE

ECONOMIC AND SOCIAL COMMITTEE

ON THE

PROPOSAL FOR A COUNCIL REGULATION (EC) LAYING DOWN GENERAL PROVISIONS ON THE STRUCTURAL FUNDS

(COM(1998) 131 final - 98/0090(AVC)

PROPOSALS FOR COUNCIL REGULATIONS (EC) ON THE EUROPEAN REGIONAL DEVELOPMENT FUND, THE EUROPEAN SOCIAL FUND AND ON STRUCTURAL MEASURES IN THE FISHERIES SECTOR

(COM(1998) 131 final - 98/0114 (SYN) - 98/0115
(SYN) - 98/0116 (CNS))

PROPOSALS FOR COUNCIL REGULATIONS (EC) AMENDING REGULATION (EC) NO. 1164/94 ESTABLISHING A COHESION FUND AND AMENDING ITS ANNEXE II

(COM(1998) 130 final - 98/0104 (AVC) - 98/0118 (CNS))

On 19 May and 6 June 1998, the Council, acting under Article 125, 130d, 130e and 198 of the Treaty establishing the European Community, decided to consult the Economic and Social Committee on the

Proposal for a Council Regulation (EC) laying down general provisions on the Structural Funds (COM(1998) 131 final - 98/0090(AVC)

Proposals for Council Regulations (EC) on the European Regional Development Fund, the European Social Fund and on structural measures in the fisheries sector
(COM(1998) 131 final - 98/0114 (SYN) - 98/0115 (SYN) - 98/0116 (CNS))

Proposals for Council Regulations (EC) amending Regulation (EC) no. 1164/94 establishing a Cohesion Fund and amending its Annexe II
(COM(1998) 130 final - 98/0104 (AVC) - 98/0118 (CNS))

The Section for Regional Development and Town and Country Planning, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 31 August 1998. The rapporteur was ***Mr Christie****.*

At its 357th plenary session (meeting of 10 September 1998), the Economic and Social Committee adopted the following opinion by 93 votes in favour, two votes against and six abstentions.

1. Background

1.1 At its meeting on 18 March 1998, the European Commission adopted several Draft Regulations on the Structural Funds based on proposals previously circulated in the context of the Agenda 2000 package. Seven Draft Regulations were approved covering the four separate Structural Funds (i.e. the ERDF, the ESF, the EAGGF, and the Financial Instrument for Fisheries Guidance (FIFG)), the Cohesion Fund, an Instrument for Structural Policies Pre-Accession (ISPA), and a Regulation laying down general provisions on the Structural Funds.

1.2 The main text of this Opinion addresses the issues arising from the Draft General Regulation which identifies the main areas for consideration in respect of the reform of the Funds. The Opinion also addresses the Draft Regulations in respect of the ERDF, the ESF, the FIFG and the Cohesion Fund in separate sections. The EAGGF and the ISPA are dealt with in separate Opinions.

2. The Commission proposals

2.1 This section sets out some of the key elements of the Commission's proposals for revision to the operation of the Structural Funds over the period 2000-2006. It is a summary and forms the basis of the Economic and Social Committee's Opinion on these proposals.

2.2 The Commission is advancing proposals for the reform to the Structural Funds within the overall context of the reforms introduced in 1988, and against a background of regional economic convergence achieved since that time. The context for the Structural Funds in the future is one that includes the introduction of a new Title on Employment within the Treaty of Amsterdam highlighting the promotion of employment in the Union.

2.3 The Commission's proposals for the Structural Funds are to be conducted within a financial framework which allocates a global total of 218.7 billion Euros (1999 prices) for the existing 15 Member States, equivalent to 0.46% of EU GDP.

2.4 Central to the Commission proposed revisions is the concentration of Structural Funds activities on three priority Objectives and three Community Initiatives. A consequence is a reduction in the percentage of the EU population covered by the two geographical Objectives of the Funds from 51% at present to between 35% and 40% by 2006.

2.5 In the next period of the Funds there will be a concentration of assistance on those regions whose development is lagging behind at a level to that currently prevailing. The Draft Regulation calls for a strict application of the 75% per capita GDP criterion (at NUTS II level) in the selection of regions qualifying for support under Objective 1. The revised Objective 1 will also include regions currently in receipt of support under Objective 6. The revised Objective 2 will cover areas undergoing socio-economic change in the industrial and service sectors, declining rural areas, urban areas in difficulty and depressed areas dependent on fishing. The areas eligible for financing under Objective 3 shall be those not covered by Objectives 1 and

2.6 The activities of the Structural Funds are intended to contribute to growth, competitiveness and employment across the EU. The impact on employment should affect three main areas of assistance - infrastructure, the development of human resources and support for the productive sector. This is consistent with the new Title on Employment included within the Amsterdam Treaty.

2.7 In presenting the Draft General Regulation, the Commission has sought to make reforms that improve the operation and management of the Structural Funds. The Commission retains a key strategic role with respect to programming, respect for Community priorities in implementation, and the verification of results through monitoring, evaluation and financial control. In a number of key aspects, the proposed Regulation provides for a simplification in implementing the Structural Funds and a clarification of responsibilities between the Member States and the Commission.

2.8 The Commission proposes establishing a reserve of 10% of the Funds to be allocated at the mid-term point according to the performance of programmes as revealed by the outturn up to that stage.

2.9 The Draft Regulation provides for a clarification of the principle of Partnership. Accordingly, the participation of regional and local authorities, environmental authorities and economic and social partners, including non-governmental organisations, must be guaranteed by the Member States.

2.10 The Draft Regulation also provides for the simplification and decentralisation of the operation of the Funds. This is to be achieved by the implementation of a single Structural Funds Integrated Programme per region to contain the integrated measures promoted via all the Structural Funds, whether under Objective 1 or Objective 2. This rationalisation is intended to improve effectiveness and synergies of the Funds, reduce the number of initial and amending decisions, enhance the flexibility of the Funds and harmonise Fund methods.

3. General Comments

3.1 The Commission proposal for a Council Regulation laying down general provisions on the Structural Funds presents the proposed legal framework for the activities of the Funds over the period 2000-2006. This Regulation combines two previous legal instruments - the Framework Regulation and the Co-ordination Regulation, and in so doing both simplifies and makes more transparent the operating principles and administrative responsibilities of the various partners involved in giving effect to the EU structural operations. The Economic and Social Committee welcomes this change as it should lead to greater efficiency and accountability in both planning and implementing local economic development programmes supported by the Structural Funds.

3.1.1 The **structure of the General Regulation** now represents a clear and ordered statement of the conditions to be met in the implementation and management of the Community's cohesion efforts over the next financial period. Although the Draft Regulation recommends that significant changes are introduced in the operation of structural measures in the next planning period, the underlying principles of concentration, programming, partnership and additionality that have shaped the development of these measures since 1988 are retained and reinforced by the provisions of the proposed Regulation.

3.2 The Economic and Social Committee stresses the importance that none of the reforms being proposed by the Commission should detract from the efforts, through the use of the Funds, to secure a greater measure of economic and social cohesion across the EU. To this end, the proposed reforms must contribute, and be shown to be contributing, inter alia, to raising income levels in the less favoured areas of the EU; facilitating the development of local industry and services (including tourism) within these areas; promoting economic adjustment in the declining industrial areas; promoting economic diversification in the Union's rural, agriculture, fishing and sparsely populated communities; and, especially in the context of the European Social Fund, attacking unemployment throughout the EU by investing in human capital development and facilitating the adaptation of workers to changes in technology.

3.2.1 It is clearly important that, whilst striving to achieve a **greater efficiency** from the operation of the Structural Funds, a sufficient element of **flexibility** and **adaptability** is retained to ensure that the Funds are capable of responding to unforeseen economic shocks of a structural nature which have a significant regional element. This has been a feature of the current Regulations where Structural Funds assistance has been used successfully, for example, to address the particular problems of the textile producing regions in Portugal, the coal mining areas across the EU, as well as regions seeking to diversify employment away from defence and related activities. In most such cases EU assistance has been the central element of broader economic development support.

3.2.2 Given the employment policy power enshrined in the Amsterdam Treaty, measures - and particularly measures forming part of economic aid (Regional Fund) - should be part and parcel of an overall employment policy blueprint. This should be applied in the context of continuing support for sustainable economic development in the disadvantaged regions of the EU.

3.3 The principles of concentration, programming, partnership and additionality that together have underpinned the operation of the Structural Funds since 1988 are retained in the current proposal, and indeed have been strengthened in crucial areas. Consequently, the proposed new Regulation builds upon the success of the EU approach, and provides for a range of politically sensitive and technical reforms which are aimed at enhancing the effectiveness of activities conducted under the aegis of the Funds. Moreover, actions financed by the Structural Funds actions must continue to observe the objectives of other elements of EU policy (e.g. with respect to the environment, employment and social protection).

3.4 As was indicated in the Agenda 2000 Communication[1], the Commission proposes that the number of priority objectives for support under Structural Funds be reduced from seven to three. Whilst the Economic and Social Committee agrees that this should increase the overall visibility and effectiveness of the Structural Funds, this re-organisation must not weaken the EU's commitment towards specific aspects of regional economic development within the now wider EU Objectives, or to particular types of economic disadvantage.

3.4.1 A central aim of the Commission's proposals is to increase the concentration of the Funds such that, by 2006, the share of the Union's population covered by the revised territorial objectives of Structural Funds support will have fallen from the present 51% to a share of between 35% and 40%. Whilst acknowledging the importance of concentration in the Funds' actions, and recognising the transition measures provided for in the proposals, it is essential that Structural Funds reforms do not reverse the economic progress that has been achieved by those regions which no longer find themselves eligible for assistance once the current Regulations expire.

4. Specific Comments

A. Revised Objectives

4.1 In line with the proposals set out in the Agenda 2000 Communication, the Draft Regulation proposes that the operation of the Structural Funds be focused on three, rather than the current seven objectives.

4.2 The principle of territorial objectives has been retained with respect to Objectives 1 and 2 of the Structural Funds. However, it is proposed that the total EU population covered by these two Objectives be lowered from the current 51% to between 35% and 40% by 2006. This is a significant reduction in the population to be covered under Objectives 1 and 2, and a significant rise in the proportion eligible under the revised Objective 3. Within this total coverage, the Commission estimates that, based on a "strict" application of the 75% of GDP criterion, Objective 1 regions will account for 20% of the EU population, with Objective 2 representing a further 18% of the total.

Objective 1

4.3 The Economic and Social committee notes that, under Article 3, it is proposed that the Commission will be responsible for drawing up a list of regions meeting the (less than 75% per capita GDP) criterion for eligibility under **Objective 1.**

4.3.1 The Economic and Social Committee supports the principle of concentration of actions under the Structural Funds, and endorses the importance the Commission attaches to limiting eligibility under Objective 1 support only to those NUTS II regions where the per capita GDP falls below 75% of the EU average. It is, however, likely that strictly applying this criterion will result in some NUTS II regions, or sig-

1 COM(97) 2000 final

nificant areas therein, being excluded which nonetheless are facing serious problems of regional economic development. In such cases, it may be appropriate for the Member States and the Commission jointly to examine whether the 75% criterion, on its own, is sufficient to trigger support, via the Structural Funds, for all similarly lagging regions. In such joint examination, objective and transparent labour market and other economic criteria should be defined to ensure equitable treatment of such regions.

4.3.1.1 Where, despite careful consideration, economically disadvantaged regions are no longer deemed to be eligible to receive assistance under Objective 1, and notwithstanding the Commission's proposals for transition measures to apply in those regions, Member State governments may need to enhance domestic regional economic programmes if the economic and social performance and prospects of these regions are not to be reversed. Although all such measures must conform to EC competition rules, the Economic and Social Committee recognises that increased national support may be a corollary to intensifying the degree of concentration in the application of EU Structural funding.

4.3.1.2 The Economic and Social Committee notes the Commission proposal (Preamble to the Draft Regulation) that the regions eligible under Objective 1 of the Funds should be the same as the areas assisted by Member States under Article 92(3)(a) of the Treaty. Whilst the Committee accepts that this should be the case generally, it would stress that State aids to industry is a separate instrument of national economic policy which a Member State should be able to use, at its discretion, where the relevant case for so-doing can be established.

4.3.1.3 The Commission proposes (Article 3 (1), Draft Regulation) that Objective 1 status be extended to include the most remote regions and the areas eligible under Objective 6 for the period 1995-99; that is, regions with an extremely low population density. Whilst accepting that eligibility on this basis should continue to be an element within the Funds, the Committee proposes that eligibility for support on the basis of a considered and specified population density should be available to any region within the EU. Consideration should also be given to developing objective criteria to permit an extension of Objective 1 funding to provide economic support for the better integration of geographically disadvantaged regions. Because of their remoteness or isolation and problems of access, such regions experience considerable difficulty in integrating themselves into the economy of the European Union.

4.3.1.4 In considering the criteria which would trigger Structural Fund entitlement under this heading, the Commission should assess the extent to which the failure of a region to achieve self-sustaining economic development is a result of sparsity of population (including that caused by migration), or is related to the geographic peripherality of the region, including peripherality that results from the physical characteristics of the area (e.g. islands, upland areas and other peripheral regions).

Objective 2

4.4 A revised Objective 2 will comprise declining industrial and service regions (currently eligible under Objectives 2, and using identical criteria), rural areas (previously Objective 5b), urban areas and fisheries dependent areas. A population ceiling of 18% of EU has been placed on total Objective 2 coverage, with an indicative breakdown of 10% for industrial and services areas, 5% for rural areas, 2% for urban areas and 1% for areas dependent on fisheries. The regions eligible under Objective 2 will be determined jointly by the Commission and the Member States.

4.4.1 It is important that the proposed revision to the eligibility criteria under **Objective 2** to incorporate declining rural areas, along with urban areas in difficulty and depressed areas dependent on agriculture and fisheries, should not produce any diminution in the efforts hitherto made to promote economic development in rural areas. It is often the case that rural areas are characterised by an element of "hidden" unemployment, implying that this indicator of economic disadvantage should be interpreted with caution when applied to rural areas. Consequently, Member States should strive to ensure that an appropriate balance is achieved in the allocation of support between rural and non-rural areas in the interests of rural/urban complementarity.

4.4.2 The Economic and Social Committee notes that the preponderant criterion determining **eligibility for assistance under Objective 2** will remain the level of unemployment. Not only does the Committee regard this to be a narrow indicator of economic disadvantage, it is also an imperfect measure of labour market conditions in disadvantaged regions. Other relevant labour market indicators which could be taken into consideration include labour market participation ratios and skill and human resource audits.

4.4.3 The Economic and Social Committee endorses the proposal that greater weight should be given to urban concerns in the application of the Structural Funds. However, this aid must not be restricted solely to problem urban areas, but must make a positive contribution to overall urban development. In this respect, former Community Initiatives should be integrated into normal Objective 2 support.

4.4.4 The Economic and Social Committee is concerned that the revised arrangements may produce a shift in the current distribution of Structural Funds support between the rural and the urban areas within the Member State. Whilst noting that the Regulation requires that the industrial and rural areas meeting the relevant eligibility criteria must contain at least 50% of the population covered by Objective 2 in each Member State, nonetheless there is considerable scope for Member States to assign Structural Funds resources to the densely populated areas. In its appraisals of the implementation of the revised Regulations, the Committee urges that the Commission reports and comments upon the pattern of distribution of Objective 2 support in each Member State.

4.4.5 The Commission proposes that eligibility for Objective 2 **support under the industrial area provisions** (Draft Regulation, Article 4 (5)) will be determined solely by criteria relating to recorded rates of unemployment. The Economic and Social Committee recommends widening the eligibility criteria to reflect per capita income (GDP) trends in declining industrial regions. The cyclical nature of unemployment means that regional levels of employment and unemployment are likely to change significantly over the seven year period during which Objective 2 programmes will operate under the revised arrangements. Consequently, Member States whose economic cycle is out of phase with the cycle in the majority of Member States will be disadvantaged if unemployment is the sole measure of economic disadvantage in these regions. At the same time, regions that do meet the unemployment criteria at the outset may find themselves in a significantly better position long before the Objective 2 programmes are completed.

4.4.6 Incorporating a per capita GDP criterion within Objective 2 eligibility criteria will also be likely to benefit disadvantaged rural regions. The Commission's proposal (Draft Regulation, Article 4(6)) provide only for population and employment trends to determine rural area eligibility. However, all disadvantaged rural areas are also characterised by low per capita income levels (related to the high incidence of hidden unemployment), and utilising a per capita GDP measure of economic disadvantage will provide an additional mechanism for protecting the interests of these areas.

4.4.7 The Economic and Social Committee is of the view that regions no longer deemed eligible for support under the revised Objective 2 should not automatically lose entitlement to national economic support under Article 92(3) of the Treaty.

Objective 3

4.5 **Interventions under the new Objective 3** will be outside the areas covered by the new Objectives 1 and 2, and take into account the new Employment Title in the Amsterdam Treaty, and the EU's new employment strategy. Eligibility under Objective 3 requires that the region concerned is not covered either by Objectives 1 and 2, nor that it be in receipt of financial assistance under the transition provisions. The Economic and Social Committee stresses that the Structural Funds in their entirety should operate to support the employment objectives contained in the Amsterdam Treaty. This link should not apply only to the activities of the European Social Fund, but should prevail in the operation of all the Structural Funds. Furthermore, Objective 3 serves as a policy frame of reference ensuring consistency with all measures carried out in a Member State to promote human resources.

4.5.1 Whilst welcoming the scope for assistance to be given under Objective 3, and the emphasis that is given to employment creation in the Draft Regulation - taking into account the new Employment Title in the Amsterdam Treaty - the Economic and Social Committee wishes to stress the importance of continuing those measures that facilitate the adaptation of the workforce to industrial change and technological change, as currently provided for by Objective 4 of the Structural Funds. The Commission's Draft Regulation makes no explicit mention of this aspect under the new Objective 3. The Committee would stress the key role that such measures have in maintaining employment, and would wish to see them continue to occupy a central place in future Structural Funds policies within the framework of Objective 3 support. The Committee would stress the key role that such measures have in maintaining employment, and would wish to see them continue to occupy a central place in future Structural Funds policies within the framework of Objective 3 support **and the integrated programmes for Objective 1 and 2 areas.**

B. Duration and Transition

4.6 **The list of regions eligible for assistance under Objectives 1 and** 2 will be valid for the entire seven period 2000-2006. However, where there is a serious crisis in a region, the list under Objective 2 may be amended in 2003 provided it does not increase the proportion of the population covered by Objective 2 in each programming region.

4.6.1 Whilst there is a clear case for programming under Objective 1 assistance to cover the entire seven year period of the new Funds, the argument for this under specific aspects of Objective 2 is less compelling. In particular, the use of employment data as the sole indicator for inclusion under the industrial area criterion of Objective 2 points to a more comprehensive review process being required at the mid-point in the programmes, i.e. 2003. By that time, it is perfectly feasible that some areas initially not eligible under Objective 2 may by then meet the criteria, whilst others initially eligible will no longer be eligible. At present, the Regulation provides very limited scope for adjustment of the industrial areas covered by Objective 2 in 2003, and this is to take place only on the basis of a request by the Member State and subject to the condition that it does not produce an increase in the total population covered by Objective 2 in that Member State. The Economic and Social Committee notes that in fact these provisions give very little effective scope for the Funds to be adjusted in response to changed circumstances within Member States, and none whatsoever should an economic shock result in a net increase in the population then residing in areas that meet the Objective 2 unemployment criteria. The Committee proposes that further consideration is given to introducing a more comprehensive mid-point review, at least in the context of Objective 2.

4.6.2 The Economic and Social Committee welcomes the provisions that the Regulation makes for **transition measures** to be applied to regions that are no longer eligible for assistance beyond 1999. The transition phase will last between four and six years, and will ensure that the regions which have benefited from support will be in a position to adjust gradually to the future situation. The Committee calls for a detailed specification of the implementing conditions for the transitional measures. The socio-economic partners should be involved in specifying these conditions.

4.6.3 The Committee also welcomes the proposal by the Commission that, with a view to ensuring that each Member State makes an equitable contribution to the overall movement towards concentration, the reduction for each Member State should be limited to one-third of the population coverage of current Objective 2 and 5b regions. However, the Committee considers it to be inequitable and illogical for the gross reduction to be offset by the coverage for areas receiving transitional support under Objective 1 and which meet the Objective 2 eligibility criterion, before applying the limitation.

C. Reserve

4.7 The financial envelope provided for the Funds over the period is set at 218.7 billion euros. Within this, the Commission proposes that some 10% be retained as a **performance reserve** to be allocated at the mid-term point by the Commission. The Draft Regulation stipulates that the reserve will be allocated to programmes which have "attained a satisfactory level of performance...". The performance reserve will be awarded to operational programmes or to the SPDs which are judged to be performing well or very well according to their score on a limited number of measurable indicators assessed at the mid-term in comparison to targets established at the outset.

4.7.1 The Economic and Social Committee regards the size of the proposed reserve to be excessive, and the manner of its proposed allocation to be questionable. Whilst the idea of retaining a reserve is accepted, it would be better, should it be used, to address unexpected regional economic disturbances of a structural nature that impact upon the EU over the programming period of the new Funds. Given that the EU is about to embark upon monetary union, and given that regional economic problems may emerge relatively quickly, the Committee proposes that a more modest reserve is created, but that it is retained to be used in the event of unanticipated regional economic difficulties appearing in the future. In particular, experience has taught us that these areas tend to be susceptible to unexpected economic disturbances, and it is in these areas that additional support from the retained reserve is most likely to be required in the future.

D. Community Initiatives

4.8 The Commission proposes to reduce the resources available for **Community Initiatives** to 5% of the financial envelope available, and to narrow considerably the scope of actions financed under this heading to 3 general programmes. These are trans-national, cross-border and inter-regional co-operation to stimulate regional economic development and encourage harmonious and balanced regional planning: rural development: and new trans-national co-operation to fight all sorts of discrimination and inequality preventing access to employment. Whilst accepting that a degree of rationalisation in Community Initiatives has been sought by some Member States, the Economic and Social Committee continues in the view that the Commission must be able to respond speedily to unexpected economic disturbances which impact on the economic well-being of regions. In many parts of the EU, the cohesion effort has been represented principally by Community Initiatives which have, on many occasions, made an important contribution to local economic stability. The Commission proposals in this regard will change radically the role of Community Initiatives and it is unlikely that they will be able to be applied in the future as previously.

4.8.1 The Economic and Social Committee's view is that consideration is given to adding a fourth heading for Community Initiatives which provides scope for the Structural Funds to assist the adjustment process in areas significantly affected by unforeseen economic shocks. Measures within this heading should be subject to objective criteria being met, and should complement national programmes of economic assistance.

4.8.2 The Committee also draws attention to the fact that with the end of RECHAR and RESIDER Community Initiatives followed very shortly by the expiry of the ECSC Treaty, a policy vacuum will be created and the continuity of some excellent and pioneering regional development work put at risk. It fully endorses the call by the ECSC consultative Committee for the Commission to bring forward relevant proposals as a matter of urgency.

E. Partnership

4.9 The Draft Regulation proposes a significant strengthening to both the scope and the operation of **partnership**. In addition to the economic and social partners, the Commission proposes the inclusion within the definition of "partnership" those bodies responsible for the environment, promoting equality of opportunity between men and women along with regional and local authorities. Moreover, the Regulation extends the scope of the "partnership" to explicitly include monitoring and evaluation of assistance, in addition to preparation of programmes and financing, and requires (Article 14(1)) that each partner shall be able to express an opinion over development plans for Objectives 1, 2 and 3.

4.9.1 The Economic and Social Committee greatly welcomes the strengthening of the definition and role of the partners in the design, implementation and monitoring of the Structural Funds that is provided for in the Draft Regulation. By adding to the economic and social partners the regional and local authorities, the environmental bodies, and those responsible for equal opportunities between men and women, the Regulation is going far to ensure that those who can best contribute to local economic development are included in the policy process. The partnership concept could be further strengthened by ensuring that it covers organisations which further social cohesion and solidarity. The revised Regulation will make it much more difficult for some Member States to continue to ignore the relevant economic and social partners in the local economic development process and this should ensure that those responsible for economic development at the local level (even where they are not locally represented) will be included in the deliberations.

4.9.2 The principle of partnership is a key element in ensuring that the operation of the Structural Funds retains the "bottom-up" approach to planning and implementation which is central to the success of actions taken under the Structural Funds. The Economic and Social Committee has repeatedly called for partnership to be properly observed at all levels of Structural Fund actions, especially within Member States, and does so again in the context of the current reform proposals. Involvement in the partnership cannot be effective unless it is active rather than just advisory. It must cover all stages - programming, implementation and evaluation - at local, national and EU level.

4.9.3 Whilst specific domestic situations may result in differences arising in the operation of partnership between Member States, nonetheless the Commission should be rigorous in ensuring that all Member States correctly observe the underlying partnership principle, as set out in Article 8 of the Draft Regulation.

4.9.4 The Committee feels that appropriations under "Technical support" - an item which appears in every programme - should be made directly available to the partnership, in order to make it as effective as possible.

4.9.5 The Committee reaffirms its view that the partnership principle should be deepened and extended further at European level, too. The need to use the partnership to plan, implement and evaluate European structural policies has not been fully met in the European context. The plan for the Commission to lay down strategic guidelines for structural assistance must involve all responsible partners and this involvement must extend beyond formal consultation and information activities. The Committee trusts that the Commission will submit more far-reaching proposals and initiatives in this respect, especially with regard to involvement of social partners beyond consultation with the ESF Committee.

F. Additionality

4.10 Under Article 10 of the Draft Regulation, the Commission sets out a much stricter regime that Member States must observe in order to verify **additionality** in the application of Structural Funds assistance. Not only has this to be demonstrated more transparently in the Community Support Frameworks and Single Programming Documents, it will also be verified at three points during the programming period - an ex ante verification; a mid-term verification; and a verification before 31 December 2005. The Economic and Social Committee welcomes the strengthening of the requirements to demonstrate additionality on the part of the Member States.

G. Global Grants

4.11 The ESC notes the Commission's proposals concerning the use of global grants (Article 26). These are an important and direct mechanism for implementing certain aspects of the structural operations, and are particularly relevant in the context of local development initiatives.

H. Programming and Management

4.12 The Draft Regulation provides for a simplification in the **programming procedures** whereby a clearer division of responsibility between the Member States and the Commission will be achieved. Whilst the programming procedures will remain broadly as they are at present, the role of the Commission will be confined to setting the Community's priorities under each Objective, with the responsibility for the preparation of the detailed content of the programmes, along with the management and implementation of the specific programmes, and the selection of projects, being assigned almost entirely to the Member States.

4.12.1 The Economic and Social Committee welcomes the simplification and decentralisation of the arrangements being proposed, and the clarification of responsibilities that ensues. This will result in a clearer division of responsibilities in the implementation of the Funds, and this will enhance transparency and efficiency. However, by assigning a greater role to the Member States, it is incumbent on the Commission and the Member States to ensure that the strengthened partnership arrangements set out in the Draft Regulation are working properly and effectively. Otherwise there is a risk that important information available to those in the now broadened partnership will not adequately be reflected in the operational programmes. A corollary of this is that the government agencies in Member States must strive to ensure that those to be included within the partnership, and particularly representatives of businesses, are supported in the often complex tasks and information requirements associated with management of the Structural Funds operations. This can be undertaken by organised training programmes along with regular briefings to ensure that all relevant information, including on definitions of eligible expenditure, is available to these bodies as is necessary to give real effect to the concept of partnership.

4.12.2 The proposal that **Managing Authorities** will be established that will take responsibility for the detailed programming of the Funds, and for their correct implementation, in each Member State is to be welcomed. Once more this is likely to contribute to a much clearer division of responsibility for the management of the Funds.

4.12.3 The Economic and Social Committee notes that the Managing Authority is required to submit a comprehensive annual Report to the Commission, detailing and reviewing the performance of the Funds. This should provide a clear source of information for the Commission to assess the effectiveness of the Funds. An important issue to be covered in the Implementation Report is the extent to which actions under the Structural Funds comply with the objectives of other Community policies. The Economic and Social Committee endorses this requirement as there is no doubt that in some instances aspects of Structural Funds actions have conflicted with other EU policies - for instance, with environmental concerns.

4.12.4 Article 34 of the Draft Regulation strengthens and clarifies the role of Monitoring Committees. In particular, it is stressed that these Committees must include - either in a voting or an advisory capacity - representatives of each of the relevant partners. Moreover, in accordance with the principle of subsidiarity, and to ensure that responsibilities rest with the appropriate authority, the role of the Commission on the Monitoring Committee will be solely advisory.

4.12.5 The Economic and Social Committee endorses this revision as it lends real authority to the economic and social partners, and the other partners, in the operation and management of the Funds. In providing for an effective role to be played by the partners in this manner, the Regulation goes some way in meeting the objectives of a strengthened role for partnership that have been advocated on many occasions by the Economic and Social Committee. It is essential, therefore, that the Commission uses the powers that it has available to ensure that Member States observe these new arrangements.

4.12.6 The Monitoring Committee must endorse any proposal to change the programme or the programme supplements made by the Managing Authority before such a request is passed to the Commission. Consequently, no measure within the Operational Programme can be altered without the consent of the Monitoring Committee. This is an improvement on current arrangements as it is at the level of the Monitoring Committee that a detailed understanding of local economic development requirements are best understood, and within which partnership is represented.

4.12.7 The Economic and Social Committee notes the proposal for **Monitoring Committees** to be chaired by a member of the Member State's Managing Authority. It is essential that the Chair of the Monitoring Committee be an independent person in the sense of having no direct or financial interest in the actions to be supervised by the Monitoring Committee.

4.12.8 The Committee notes that within the present programming framework, support schemes take insufficient account of SMEs and craft enterprises, and few appropriate measures are directed towards them. The Committee therefore welcomes the Commission's proposal for greater concentration of measures helping SMEs.

I. Financial Management

4.13 The Commission is proposing that there be no change in the **maximum co-financing rates** under the new Regulation, although it suggests that lower maximum rates should apply for infrastructure investments that generate substantial revenues and investments in firms. The Economic and Social Committee endorses these proposals, particularly the principle of a maximum 10% increase in co-financing rates for investment in small - and medium sized enterprises.

4.13.1 In the areas of **financial management and financial** control the Draft Regulation provides for major changes designed to assign the major part of responsibility to Member States. To this end, the Regulation details a range of responsibilities that Member States - through the Managing Authority - will have to discharge to ensure that Funds are being used properly, efficiently, and that the auditing arrangements and reporting systems are such that the finances are being managed soundly and with no irregularities.

4.13.2 The Economic and Social Committee has repeatedly called for financial auditing arrangements to be created that ensure that monies available under the Structural Funds are being spent properly, and that any irregularities are easily detected. Consequently, the Committee endorse these new arrangements as going some way to meeting its previous requests.

4.13.3 The regulation provides for **budget commitments** to be de-committed if they remain unused by the end of the second year following the year of the commitment with the result that the total assistance package shall be reduced by that amount. Whilst accepting that monies committed to programmes should generally be used within what is effectively a three year time frame, it is important that "rules" are not applied rigorously without regard to particular conditions in specific Member States. Consequently, without objecting to the general principle contained in this aspect of the Regulation, the Committee would wish to see some flexibility applied in its interpretation.

4.13.4 The Economic and Social Committee endorses the revised **plan for payments** to be made under the Funds. This provides generally for a 10% advance payment, followed by regular payments upon receipt of evidence of actual, certified expenditure having been undertaken. This should help tighten the financial controls surrounding payments from the Funds and reduce the payment periods for the beneficiaries of structural measures.

5. The Commission's Proposal on the European Regional Development Fund

5.1 The Commission's Draft Regulation on the European Regional Development Fund (ERDF) sets out the scope of activities which may be supported by that Facility within regions designated as being eligible for assistance under Objective 1 and 2 of the General Regulation. In common with current arrangements, the ERDF will continue to contribute towards the financing of:

(a) productive investment to create and safeguard permanent jobs;
(b) investment in infrastructure;
(c) support for local development and employment initiatives and the activities of SMEs;
(d) technical assistance.

5.2 The Economic and Social Committee endorses the Commission's proposals in this regard. In particular, the Committee notes the wide range of infrastructural investments to be encouraged within Objective 1 regions, and concurs that these are essential elements in a programme leading to sustainable economic development in the EU's lagging regions.

5.3 The thematic areas of support which the Commission proposes are to be provided under the ERDF as follows:

the productive environment;
research and technological development, including technology transfer and innovation;
the development of the information society;
the protection of the environment;
equality between men and women in the field of employment;
trans-national, cross-border, and inter-regional cooperation on regional development.

5.4 The Economic and Social Committee supports the Commission proposals in selecting these priorities for funding under the Structural Funds after 2000. It would particularly stress the need for closer coordination and improved integration between Community intervention under the RTD Framework Programme and structural intervention[2].

6. The Commission's Proposal on the European Social Fund

6.1 Structural Funds actions financed by the European Social Fund (ESF) concern human resource development-related measures undertaken both in Objective 1 and 2 regions, and under the aegis of the new Objective 3 which brings together the previous Objectives 3 and 4. The new Objective 3 will cover all areas of the EU that are not eligible for assistance under Objectives 1 and 2. The aims of the ESF are to promote a high level of employment and social protection, equality between men and women, sustainable development, and economic and social cohesion. Consequently, as is the case under the current Regulations, the ESF occupied a pivotal place in the Structural Funds and has a key role to play in combating unemployment which is a major contributing factor to the multi-faceted problem of social exclusion.

2 The Committee is preparing a separate Opinion on the subject based on the Communication from the Commission of 27 May 1998 on "Reinforcing cohesion and competitiveness through research, technological development and innovation" (COM(1998) 275 final)

6.1.1 The Economic and Social Committee supports that the ESF's role is to be based on the new employment chapter of the Amsterdam Treaty, and will come within the scope of the employment strategy defined at the Essen European Council and of the annual national action plans for employment.

6.2 The Draft Regulation on the ESF groups together three categories of activities that will be eligible for assistance under the ESF:

(a) assistance to persons: education and vocational training, aid for employment, higher education in science and research, job creation;
(b) assistance to structures and systems: improving education and training systems, modernising employment services, systems for forecasting qualification needs;
(c) ancillary measures: raising awareness, service providers, etc.

6.3 As is made clear under Article 2 of the Draft Regulation, the focus of intervention under the ESF is to be employment creation and protection, including measures to address the problem of long term unemployment. Accordingly, measures financed with ESF assistance include, inter alia, policies to combat unemployment; the development of educational and training systems, and systems geared to the adaptation of workers' skills. At the same time, measures under the ESF are to contribute towards local development, including local employment initiatives and territorial employment pacts.

6.3.1 The Economic and Social Committee emphasises that the European Social Fund should remain a targeted labour market policy instrument. Broader social objectives, including national educational objectives, properly are the responsibility of Member States.

6.4 The Economic and Social Committee stresses the importance it attaches to the involvement of all relevant local economic development partners in this process, and to the speedy implementation of measures supported by the ESF. The European Commission should be encouraged to examine and report upon any administrative impediments within particular Member States which prevent this.

6.5 The Economic and Social Committee welcomes the continued support to be provided by the ESF for innovatory operations and pilot programmes as set out in Article 6 of the Draft Regulation.

6.6 The Committee also takes a very positive view of the Commission's proposal, in Article 4(3), that at least 1% of Social Fund resources shall be available, in conformity with Article 26 of the General Regulation, for the distribution by intermediary organizations of small grants with special access arrangements for non-governmental organizations.

7. The Commission's Proposal on Structural Measures in the Fisheries Sector (FIFG)

7.1 The Economic and Social Committee approves the proposal that the financial instrument for fisheries guidance should be a Structural Fund in its own right.

7.2 The Economic and Social Committee notes and agrees with the four targets which the Commission seeks to pursue within this instrument. At the same time, the Draft Regulation provides for programming measures to accompany the restructuring of fishing fleets to be financed from the EAGGF Guarantee Section.

8. The Commission's Proposals on the Cohesion Fund

8.1 The Commission is proposing that the Cohesion Fund continues to be applied to the four countries whose per capita GNP is still less than 90% of the EU average (Spain, Greece, Ireland and Portugal). The Cohesion Fund was initially created to promote real economic convergence in these four countries as an integral element in their move towards membership of Economic and Monetary Union (EMU). EMU membership has now been achieved by Spain, Ireland and Portugal, with only Greece not being deemed to have met the requirements for progressing to Stage 3 of EMU.

8.2 Nonetheless, it remains the case that each of the countries continue to have a level of prosperity generally that is significantly below the EU average. At the same time, public expenditure in each of these countries will continue to be subject to the "excessive budget" criteria set out in the TEU, although for Spain, Ireland and Portugal this is now qualified by the provisions of the Stability and Growth Pact agreed upon at the Amsterdam European Council. The Economic and Social Committee agrees that these considerations are sufficient to warrant continuing with Cohesion Fund support to each of the four beneficiary countries, subject to the results of a mid-term review to be conducted in 2003.

8.3 The Commission is proposing that certain reforms to the mechanics of Cohesion Fund are introduced to reflect the participation of Spain, Ireland and Portugal within the single currency arrangement. In particular, the principle of conditionality will continue to apply and that the provisions of the Stability and Growth Pact, particularly the stability programmes, should be respected. The Economic and Social Committee fully endorses this proposal.

8.4 The Economic and Social Committee also supports the Commission's proposals to reform Article 7 of the Regulation to lower the rate of assistance offered to projects eligible for Cohesion Fund support to reflect the project's capacity to generate revenues, and the application of the polluter-pays principle.

9. Conclusions

9.1 The Economic and Social Committee broadly supports the proposed revisions to the operation of the Structural Funds as tabled by the Commission. The proposed reforms build upon the success of the Structural Funds over the period since 1988, and further consolidate the principles of concentration, programming, partnership and additionality established at that time. Together these principles have underpinned the significant success recorded by the Funds in furthering the objective of economic and social cohesion across the EU, and enhancing the solidarity of the European Union. This objective remains as valid in the current environment as it did when the Funds were reformed in 1988. Consequently, it is essential the Funds continue to provide a coherent and adequately resourced framework within which EU regional economic disparities can be narrowed, and the economic prospects of the disadvantaged regions improved.

9.2 Although detailed comments are made in this Opinion regarding the economic impact that further concentration under Objectives 1 and 2 of the Structural Funds will have in some regions, especially those who narrowly fail to meet the specified criteria for support under the Funds, nonetheless the Economic and Social Committee endorses the Commission approach which focuses on the application of measurable and transparent criteria in determining which regions are eligible for financial support from the Funds. The benefits of the Structural Funds to the EU generally can be maximised only if support is correctly and fairly targeted.

9.3 However, it is also important that the Structural Funds retain an element of flexibility which ensures that they can be used to address unexpected economic disturbances of a structural nature which have a specific regional dimension. Under the current Regulations this role, in part, is played by Community Initiatives, which have shown themselves both to be adaptable to unforeseen structural shocks and innovatory in their approach. The ESC considers that the Regulation should continue to provide for such a role to be played by Community Initiatives.

9.4 The principle of Partnership has been central to the successful implementation of the Structural Funds since 1988. By providing for the involvement of the economic and social partners in the regional economic development process, partnership ensures that a "bottom-up" approach in the policy process is implemented and that those actors able to contribute most are involved at all stages. The Committee welcomes the strengthening of the operation of partnership set out in the Draft Regulation. It is still the case that some Member States are giving only superficial recognition to Partnership, and the Commission's proposed reforms will go far in confirming Partnership as an essential element in the regional development process which the Member States must observe in full.

9.5 The Economic and Social Committee welcomes the focus on employment creation implicit in the Draft Regulation. This is consistent with the employment objectives included within the Treaty as amended by the Amsterdam Council. The Structural Funds represent a key element in job creation across the EU, both directly - in their support for the development of productive enterprise - and indirectly - as the Funds finance the development of essential economic infrastructure including training and skill enhancement. However, the Committee stresses that general employment policy remains principally a competence of the Member States, and the application of the Structural Funds must continue primarily to be directed to eliminating economic and employment underdevelopment in the lagging regions and promoting socio-economic change in the declining industrial regions. By establishing the conditions for self-sustaining economic growth in these regions, the Structural Funds are directly contributing to employment stability across the EU over the longer term.

9.6 The Economic and Social Committee urges that the debate over the Commission's Draft Regulations is conducted speedily to ensure that the new arrangements are agreed in time for their introduction from 1 January 2000. Any delay in reaching a common position which jeopardises the smooth transition from the current to the new Regulations is likely to interrupt the economic development process in the disadvantaged regions, with adverse consequences for that process. The benefits accruing from the simplified administration of the revised Structural Funds will be compromised considerably should there be any delay in the implementation of the new arrangements.

Brussels, 10 September 1998.

The President of the Economic and Social Committee ***Tom JENKINS***	The Secretary-General of the Economic and Social Committee ***Adriano GRAZIOSI***

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N.B.: Appendix overleaf

APPENDIX
TO THE OPINION
OF THE ECONOMIC AND SOCIAL COMMITTEE

(IN ACCORDANCE WITH RULES 47 (3) OF THE RULES OF PROCEDURE)

The following amendment tabled by **Mr Masucci** was defeated during the debate:

Points 4.3.1.3. and 4.3.1.4

Delete these two points.

Reasons

They would spread assistance too widely, which runs counter to the concentration principle.

Voting

For:	18
Against:	54
Abstentions:	3

OPINION

OF THE
ECONOMIC AND SOCIAL COMMITTEE

ON THE

PROPOSAL FOR A COUNCIL REGULATION (EC) No. ... OF ... ON SUPPORT FOR RURAL DEVELOPMENT FROM THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND (EAGGF)

(COM(1998) 158 final - 98/0102 CNS)

On 4 June 1998 the Council, acting in accordance with Articles 43 and 198 of the Treaty establishing the European Community, asked the Economic and Social Committee for an Opinion on the

Proposal for a Council Regulation (EC) No. ... of ... on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) (COM(1998) 158 final - 98/0102 CNS).

*The Section for Agriculture and Fisheries, which was instructed to prepare the Committee's work on this matter, adopted its opinion on 9 July 1998 (rapporteur: **Mr Kienle**).*

The Economic and Social Committee adopted the opinion set out below at its 357th plenary session (meeting of 9 September 1998) by 72 votes to one with five abstentions:

1. Rural areas as agricultural arenas

1.1 On the basis of a definition of "rural areas" as areas with a population density of less than 100 inhabitants per square kilometre, 17.5% of the current EU population live in rural areas, which make up some 80% of the overall surface area of the EU (data provided by the European Commission).

1.2 Agriculture still provides approximately 5% of total jobs in the EU. There are 7 million agricultural enterprises in the EU and 14 million people work in agriculture, on either a full-time or part-time basis. Agricultural enterprises are frequently located in regions afflicted by relatively high unemployment and underemployment.

1.3 Agriculture itself no longer constitutes the main source of income in all rural areas, as was the case in the past. Nevertheless, in most rural areas, agriculture continues to provide the focal point for added value and employment in the following areas: agricultural holdings, farming families and their employees; upstream activities which provide farms with their equipment and inputs; and downstream activities in the processing and marketing sectors. Finally, a large number of jobs in rural service industries are fundamentally dependent upon the survival of agricultural activities. It is estimated that one job in agriculture generates a further four jobs in up- and down-stream sectors of the economy, most of them located in rural areas.

1.4 Agriculture in the EU-15 is one of the main sources of food in the world and is also the world's leading food importer and exporter. Despite structural change which, over a period of years, has increased the average size of agricultural holdings throughout the EU by some 3% per year and has recently speeded up significantly, the average size of holdings in the EU - 17.5 hectares - is very much smaller than holdings in the EU's competitors, such as North and South America and Australia; the size of holdings in the EU does, however, vary enormously. Agriculture in the EU does have the advantage of having arable land with excellent soil quality and very good climatological conditions. Nonetheless, more than half of all arable land in the EU is classified as "disadvantaged", i.e. it suffers from ongoing natural disadvantages.

2. The "European model" for agriculture

2.1 Agriculture in the 15 EU Member States presents an extraordinary geographical, cultural, historical and culinary diversity and is the guardian of many traditions. In none of the Member States does agriculture therefore solely play the role of a "production industry" and "economic factor". Throughout the EU, agriculture performs broad "multi-functional" role in respect of the economy, the environment and society and, in particular, in maintaining a minimum population density in rural areas.

2.2 The EU has endeavoured to accommodate this role in the common agricultural policy. In the past the emphasis was placed on market- and price-support and Community preference. This approach was later backed up by measures to secure structural improvement in agriculture; compensatory payments for naturally disadvantaged areas, and supporting measures. Following the agricultural reform in 1992, greater use has been made of direct payments, whilst EU-preference (external protection) has been significantly scaled down (cf. the decisions taken in the Uruguay-Round of the GATT negotiations).

2.3 Agriculture's multi-functional role in the EU has recently been the subject of particularly intensive discussion within the Council of Ministers, the European Parliament and the Economic and Social Committee, as well as in economic organizations. This debate has been prompted by the following challenges, some of which are partially contradictory:

- sustained pressure at world-wide level to step up the liberalization of trade, including trade in agricultural products;
- mounting social concern in the EU about food safety and quality, protection of animals and the environment, care of the countryside and rural and social cohesion;
- on top of this there are the recently-initiated negotiations with the former communist states of central and eastern Europe; these states have tremendous agricultural potential but their agricultural and social structures are generally totally different from those in the 15 EU Member States;
- a debate is also taking place on the role of craft industries and SMEs and the impact of this policy on rural areas.

2.4 The Luxembourg Summit of Heads of State and Government (December 1997) highlighted the need for agriculture in the EU to be versatile and confirmed that the declaration issued after the agriculture council in November 1997 provided a clear mandate for the further development of the CAP within the framework of Agenda 2000. In the post-summit declaration, the Council pointed out, inter alia, that:

> ***"European agriculture must, as an economic sector, be versatile, sustainable, competitive and spread throughout European territory, including regions with specific problems. ....***
>
> ***The reform should lead to economically sound, viable solutions which are socially acceptable and make it possible to ensure fair income, to strike a fair balance between production sectors, producers and regions and to avoid distortion of competition."***

2.5 In its earlier declaration the Agriculture Council outlined the requirements to be met by a versatile EU agricultural industry in the following terms:

> ***"It must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and must be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare."***

This shopping-list of requirements undoubtedly also includes, in particular, the need to create and maintain stable, lasting jobs in all economic sectors and all areas of activity in rural areas.

3. Rural development as part of Agenda 2000

3.1 In view of the above factors, the Commission identifies, as one of the six objectives of the new agricultural policy, the need to maintain the man-made landscape and the viability of rural areas. The Commission also points out that "rural development policy should aim at restoring and enhancing the competitiveness of rural areas and therefore contribute to the maintenance and creation of employment in these areas".

3.2 The draft Council regulation forms part of the overall package of agricultural measures set out in Agenda 2000 and is designed to bolster and complement the proposed reform of marketing and price policy. In Agenda 2000, the Commission expressly states that further reform of structural policy and the common agricultural policy make it ever more necessary for the EU to develop agriculture and rural areas.

3.3 The draft regulation - which for purposes of simplicity will henceforth be referred to in this opinion as the "rural development regulation" - has a number of overlaps with the general regulation covering the Structural Funds. The two regulations however differ fundamentally in their approach to aid and funding. The rural development regulation generally adopts a broad-brush approach, whereas the Structural Funds regulation targets particular objectives and areas. Measures under the rural development regulation are funded exclusively from the EAGGF, and in particular from the Fund's guarantee section.

3.4 The new rural development regulation is intended to consolidate or replace nine existing regulations, namely:

- the regulation on implementing the Structural Fund regulation in respect of the EAGGF,
- five regulations concerning the promotion of agriculture and forestry,
- the three 1992 regulations, together with accompanying measures on the reform of agriculture in the EU.

In the Commission's opinion, consolidation of the above regulations into a single legal instrument represents an important contribution towards simplifying EU law and reducing bureaucracy.

3.5 The regulation also includes measures which are, in the Commission's view, at the heart of future rural development policy, many of which do, however, benefit agriculture only indirectly. These measures are set out in Article 31 of the regulation entitled "Promoting the adaptation and the development of rural areas". They include land improvement and reparcelling, the marketing of quality products, the diversification of economic activities to provide additional employment opportunities and alternative sources of income, improvement of living conditions, development and improvement of rural infrastructure, renovation of villages; protection of rural heritage; the retention and development of craft industries; the promotion of tourism; the preservation of the environment and management of rural areas.

3.6 At the beginning of the support period in the year 2000, as far as the guarantee section of the EAGGF is concerned, the sum of ECU 4.7 billion is to be earmarked for the rural development regulation. ECU 1.9 billion will go to measures hitherto funded under the Agricultural Structural Fund (guidance section of the EAGGF).

3.6.1 Funding for the rural development regulation under the Agricultural Structural Fund is, in principle, confined to Objective 1 areas. By way of exception, accompanying measures and compensatory payments for disadvantaged areas are funded under the Guarantee Fund, as are all other measures implemented outside the Objective 1 areas.

3.7 The joint financing rates set out in the general Structural Funds regulation are in principle to be applied to the support measures contained in the rural development regulation.

3.8 In future, structural support measures for agriculture will be implemented under "operational programmes", i.e. each Member State will draw up a multi-annual programme and will establish its own support priorities as part of the Member State's room for manoeuvre under the subsidiarity principle and in the light of the available funding.

3.9 A cross-reference based on the rural development regulation points to the fact that the LEADER Community initiative is to be continued.

4. General observations

4.1 The Committee warmly welcomes the fact that at the Luxembourg Summit, the Heads of State and Government categorically expressed their support for a "versatile, sustainable, competitive" agricultural industry in the EU and thus affirmed their belief in an individual, specific identity for European agriculture. It is also probably the first time ever that politicians anywhere in the world have made such a forthright declaration in respect of agriculture in an entire area, i.e. one that includes regions affected by special problems.

4.2 The Committee believes that espousing the ideology of total economic liberalization is certainly not the way to achieve a successful implementation and lasting affirmation of the "philosophy" defined at the Luxembourg summit, either within the framework of the Community's single market or, on a world-wide level, with a view to the next round of WTO negotiations.

4.3 The Committee believes that, as a general rule, the production and marketing of agricultural products constitutes the most effective way to tap into the benefits of economic activity and employment in rural areas. The Committee is, therefore, extremely concerned about a number of reforms proposed under Agenda 2000 with regard to specific products, which in the final analysis would make it impossible fully to exploit the potential of agriculture in the EU (e.g. with regard to oilseeds and renewable raw materials).

4.4 The Committee fundamentally welcomes the fact that the new rural development regulation consolidates a number of existing individual measures, provides for the measures to be implemented more flexibly and pays greater heed to subsidiarity aspects. These include the promotion of investment in individual agricultural enterprises, the establishment of young farmers' compensatory payments in respect of areas suffering from natural disadvantages, promotion of training and further training and, in particular, in respect of the existing accompanying measures (relating to the agricultural environment, early retirement and forestry). Tightening up the existing legislation may help to simplify them.

4.1.1 The Commission must, however, first provide a convincing explanation of how the actual simplification and improvement in transparency is to be achieved if issues formerly dealt with by the Council are to become the legal responsibility of the Commission and only at a later stage to come under the remit of administrative committees. The Member States can surely not be expected to renounce powers and then be obliged to buy a "pig in a poke", whilst being kept in the dark about details and implications.

4.5 Against the background of continuous pressure for change - which is being exacerbated by the Agenda 2000 proposals, as a whole - the Committee believes that it is both essential and appropriate that the regulation under review be implemented throughout the EU, as proposed. The funds earmarked for this purpose are, however, totally inadequate. Although the proposed regulation technically complies with the approach advocated at the Cork conference on rural development - namely that all rural areas should qualify for aid - the proposed provisions and level of funding fall short of what is required. The Committee takes the view that, in addition to agriculture, other important sectors of the economy, such as craft industries and SMEs, should be assisted through the introduction of appropriate measures.

4.6 The Committee also considers that structural policy instruments should be funded from structural policy resources. The Committee is therefore critical of the proposal that rural development measures and, in particular, measures which are only of indirect benefit to agriculture, be funded under the guarantee section of the EAGGF, i.e. from funds previously earmarked for marketing and price-policy measures and which continue to have an important role to play, even after the reform. There should be no question of indulging in competition over funding between measures to promote structural improvement and measures to assist the marketing of agricultural products.

4.7 Above all, the Committee is extremely concerned about the fact that the sweeping extension of measures taken under Article 3, will mean that too little funding will ultimately be left in the kitty for "conventional" agricultural structural policy measures. More funding needs to be provided to meet this objective and the aid eligibility conditions need to be improved, in order to (a) make EU agriculture more competitive - inter alia in the light of the accession of the eastern European countries and the WTO negotiating round - and (b), above all, to safeguard and promote employment.

4.8 The Committee categorically rejects the proposals that the compensatory allowances - which have always previously been seen as providing payments to offset natural disadvantages - are to be linked to extensification conditions or designed to provide payment for meeting environmental requirements.

The Committee takes the view that special efforts in the environmental area must be covered by separate payments.

4.9 The Committee welcomes the proposal to lift the existing restrictions on the promotion of agricultural investment. The restrictions concern, for example: the distinction between full-time farmers and those for whom farming represents a secondary occupation; the upper limit of ECU 90,000 in respect of each full-time farmer; and the restrictions on livestock farming. The Committee also approves the measures to improve assistance for young farmers. It likewise endorses the proposal that in future, it shall only be necessary to prove that an investment is of economic value, rather than having to provide the expensive business improvement plans hitherto required.

4.9.1 The Committee goes along with the argument that support should in future continue to be withheld from investment projects designed to boost production "for which no normal market outlets can be found" (Article 6). On this point, too, the Committee is critical of the proposal to transfer responsibility for decision-making from the Council to the Commission.

4.10 The Committee believes that there is a need for increased flexibility in shaping the provisions and funding arrangements for early retirement. The Committee invites the Commission to ensure that early retirement provisions are implemented in all Member States.

4.11 The Committee strongly endorses the Commission's intention to continue the Community initiative for the development of rural areas (LEADER). This Community initiative should in future be implemented less bureaucratically and more flexibly with direct participation of all the relevant economic and social partners.

4.12 The Committee stresses the advantages of basing support for the forestry sector, meanwhile, not only on forest protection initiatives but also on action to promote the sustainable long-term use of forestry resources, echoing the Committee's opinion of 24 April 1997 (OJ No. 206 of 6 July 1997, page 128).

5. Summary

5. The Committee believes that the Commission's goal of turning sustainable rural development into the "second pillar" of the common agricultural policy has good prospects of success. Agriculture is a pre-requisite for environmental protection and rural development. Successful rural development does, however, also hinge on craft industries, SMEs, commerce and a large number of professional services. Implementation of the European agricultural model and also the European model for rural areas are therefore matters of concern to everyone involved in political, business and social circles. Pipe dreams would be of no help to agriculture or rural development. The Committee believes that the proposed level of funding for the rural development regulation is inadequate to meet the goals of (a) effectively countering the marginalization of rural areas and (b) of making agriculture competitive and thereby enabling it to rise to the new challenges. Therefore, in accordance with its opinion on common agricultural policy funding, the Committee calls for the reform of that funding to take account of the introduction of a rural development policy and to ensure that the financial planning of the activities included in the rural development regulation are clear, transparent and appropriate.

6. Furthermore, despite a number of sound initial steps to simplify rural development and rural structural policies and to make them more flexible, the Committee fears that they will continue to be highly complicated and therefore difficult for interested citizens and other parties to understand. The Committee urges that appropriate attention be paid to the need for simplification, not least during the preparation of the regulation's implementation arrangements. In view of the need for a balanced approach, the Committee also deplores the absence of measures to help the other economic players.

7. It is therefore all the more to be hoped that the EU institutions will tap the considerable experience of the full range of economic and social partners who act as a mouthpiece for all rural players, particularly as represented on the Economic and Social Committee, in order to engage in a constructive dialogue designed to secure real success in the area of rural development. The Committee urges that all these players be consulted on all measures for helping rural development at European, national and local level.

Brussels, 9 September 1998.

The President
of the Economic and Social Committee
Tom JENKINS

The Secretary-General
of the Economic and Social Committee
Adriano GRAZIOSI

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OPINION

OF THE
ECONOMIC AND SOCIAL COMMITTEE

ON THE

PROPOSAL FOR A COUNCIL REGULATION (EC) ESTABLISHING AN INSTRUMENT FOR STRUCTURAL POLICIES FOR PRE-ACCESSION (ISPA)

(COM(1998) 138 fin - 98/0091 CNS)

On 4 June 1998 the Council decided to consult the Economic and Social Committee on the

Proposal for a Council Regulation (EC) Establishing an Instrument for Structural Policies for pre-Accession (ISPA) (COM(1998) 138 final - 98/0091 CNS).

The Section for External Relations, Trade and Development Policy, which was responsible for preparing the Committee's work on the subject, set up a study group and appointed ***Mr Kenneth Walker*** *as rapporteur.*

At its 357th plenary session (meeting of 10 September 1998) the Economic and Social Committee appointed ***Mr Walker*** *as rapporteur-general and adopted the following opinion by 76 votes to five, with no abstentions:*

1. Introduction

1.1 In Agenda 2000, the Commission has made a series of proposals for the reinforcement of the pre-accession strategy for all Central and Eastern European applicant Countries (CEECs). The general objective of the strategy is to offer a coherent programme to prepare these countries for accession to the EU and to:

I. bring together the different forms of EU support within a single framework, the Accession Partnerships (APs);

II. familiarise the applicants with EU policies and procedures through participation in Community programmes.

1.2 Together with the Phare programme and aid for agricultural development, Agenda 2000 proposed Structural aid for the applicant countries amounting to some Euro 1 billion per annum over the period 2000-2006, or Euro 7 billion in total. This aid would be directed mainly towards aligning the applicant countries on EU infrastructure standards, particularly - and by analogy with the Cohesion fund - in the spheres of transport and the environment. The Luxembourg European Council of December 1997 endorsed the principle of creating such a structural instrument. Consequently, the Commission is now proposing a regulation on an Instrument for Structural Policies for Pre-Accession (ISPA), based on Article 235 of the Treaty.

1.2.1 Given its similar objectives, it is considered appropriate for ISPA to broadly follow the approach of the revised Cohesion Fund. It will provide assistance for:

I. environmental measures to enable the applicant countries to meet the requirements of the Community acquis.

II. transport infrastructure measures to promote sustainable mobility and, in particular, projects of common interest based on the criteria in the Council Decision (1692/96) establishing the TENs. This will include inter-connection and interoperability of national networks as well as with the trans-European networks, together with access to TENs.

1.2.2 In addition, measures for both sectors should also contribute to the objectives contained in the APs.

1.2.3 An appropriate balance will be struck between measures relating to the environment and to transport infrastructure.

1.3 The draft proposal provides for a project-based approach with a minimum project size of Ecu 5 million. Rates of assistance under ISPA can be up to 85% and will be modulated to encourage investment leverage, especially from private sector co-financing.

1.3.1 Arrangements for financial management and control reflect the provisions of Title IX of the Financial Regulations relating to external aid from the Community. Projects will be covered by a Financing Memorandum between the Commission and the beneficiary country, which will also contain the provisions for management and evaluation systems.

1.3.2 As far as budgetary commitments are concerned, the proposal follows the system of annual instalments employed in the Structural and Cohesion funds. As this derogates from the Financial Regulation, it will require an Inter-institutional Budgetary Agreement.

1.4 ISPA will be subject to the conditionality rules laid down in the Regulation on APs and coordinated with Phare and the preaccession agricultural assistance through the Regulation on the Coordination of Pre-Accession Assistance.

2. The Commission's proposals

2.1 The eligible countries

2.1.1 In accordance with the orientations of Agenda 2000 and with the conclusions of the European Council in Luxembourg, financial aid provided for by the structural and agricultural preaccession instruments will be granted to Central and Eastern European applicant countries. These countries are listed in Article I of the proposed regulation as:

Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

2.1 The priorities

2.2.1 Based on the provisions of Agenda 2000 and the amount of the financial envelope proposed, there is seen to be a need to be especially selective as to the sectors to be covered by the new instrument. Given previous experience with the infrastructure requirements of the new German Lander in this regard and its Opinions on the applicant countries, the Commission is proposing that the new instrument should limit its funding to environmental and transport projects. This would include measures, such as training and maintenance, to ensure the effective operation of the projects.

2.3 The environment

2.3.1 As outlined in Agenda 2000, applicant countries are, on the whole, facing more acute environmental problems than the existing Member States, particularly in the fields of water and air pollution and in waste management.

2.3.2 Quantification of the effort required is complex and difficult, particularly given the need to make a number of assumptions regarding, for example, economic growth, consumption patterns and future behaviour. However, best available estimates suggest that the aggregate investment requirement for environmental acquis compliance in the ten applicant countries is of the order of Euro 100 billion.

2.3.2.1 This figure concerns solely investments related to meeting the requirements of the acquis in respect of Directives on drinking water supply, waste water treatment, air pollution and solid waste management. The estimate does not cover environmental improvements which, while they might be an essential pre-condition for economic development (such as reclaiming contaminated land), are not subject to EU legislation and for which therefore no investment is required in order to meet the acquis.

2.3.3 A major effort, including considerable EU financial and technical assistance, will thus be indispensable for enabling the CEECs to progress rapidly towards alignment to the EU environmental acquis. Assistance under ISPA will focus primarily on the areas of water, air quality and waste management; it will accordingly provide for environmental measures enabling the beneficiary countries to comply with the requirements of Community environmental legislation and the objectives contained in the APs.

2.4 Transport

2.4.1 Agenda 2000 highlights the urgent need for the up-grading and development of transport infrastructure in the candidate countries as well as the need to tackle the missing links between the latter and the EU. Without such investment, severe problems of traffic congestion are likely to arise, affecting the EU's overall traffic policies. For the countries concerned, improvements in traffic infrastructure are an essential part of their economic development programmes and, thus, of their capacity to cope with competitive pressures and market forces in the EU. Development of efficient transport systems is, therefore, an essential element in the pre-accession strategy. Such a strategy should pursue a balanced multimodal transport infrastructure development.

2.4.2 The future network should comprise the trans-European network of the present Union, the appropriate parts of the national networks in the applicant countries and the necessary connections between them. According to figures in the Commission communication, potential investment costs for establishing the EU's trans-European transport network in the CEECs have been estimated in the range Euro 50-90 billion over 15 years, merely for up-grading existing roads and railways to Western European standards and to meet the expected growth in traffic, without considering any new links.

2.4.3 The contribution under ISPA to future transport networks would thus be in providing transport infrastructure measures which promote sustainable mobility and, in particular, those that constitute projects of common interest, based on the criteria of Council Decision 1692/96, and which enable the CEECs to comply with the objectives of the APs. This would include inter-connection and interoperability of national networks, as well as with the TENs, together with access to such networks.

2.4.4 The results of the Transport Infrastructure Needs Assessment (TINA) process will also be taken into account in identifying suitable projects.

2.5 Technical assistance

2.5.1 A small part of the ISPA budget may be used to finance preparatory studies as well as technical assistance expenditure. A clear link will need to be established between the measures supported and the projects being financed under ISPA. A key role for this assistance will be to ensure a high quality of projects, including their effective management and implementation.

2.5.1.1 Total expenditure in this area, carried out at the Commission's initiative, will not exceed 2% of the total financing under ISPA. Phare's Large Scale Infrastructure Facility (LSIF), which will focus primarily on the extension of TENs beyond EU borders and on accession-related environmental problems with transboundary impact, will also be used to help prepare projects which may subsequently be financed from assistance under ISPA.

2.5.2 It will be necessary to ensure close co-operation between ISPA, Phare and the pre-accession agricultural assistance in order to avoid any overlap in the types of operation to be financed. The committee envisaged under the proposal for a regulation on the Co-ordination of Assistance to Applicant Countries within the Framework of the pre-Accession Strategy (COM(1998)150) will have a key role in this respect.

2.5.3 As with all pre-accession assistance, ISPA will be subject to the conditionality rules laid down in the AP regulation.

2.6 Financing arrangements

2.6.1 By analogy with the Cohesion Fund, the approach for IPSA will be by project or groups of projects (called measures), which should be of a sufficient scale to have a significant impact in the field of environmental protection or in the improvement of transport infrastructure networks. Experience with the Cohesion Fund, especially to avoid disproportionate administrative burdens, suggests that projects should be of a minimum size of Euro 5 million. The minimum size also needs to take into account the small size of some of the applicant countries.

2.6.2 Project selection and approval will be based on national programmes for transport and the environment included within the National Programme for the Adoption of the Acquis, which is one of the main elements of the AP. These programmes will contain specific strategies for transport and the environment and address the trans-national dimension necessary for the development of future trans-European networks. The proposed Regulation also specifies a number of criteria designed to ensure the high quality of projects, including their leverage potential and degree of readiness.

2.6.3 The indicative allocation of resources under ISPA to the beneficiary countries will be made by the Commission based on the criteria of population, per capita GDP in purchasing power parities (which most realistically reflects the wealth of the countries concerned) and surface area..

2.6.3.1 Allocations will be on the basis of an upper and lower range in order to provide a degree of financial flexibility. Due account will also be taken of the respective deficiencies of each country in environmental and transport infrastructure. These allocations may be adjusted subsequently to take account of the performance in previous years of each of the beneficiary states in implementing ISPA measures.

2.6.4 It is deemed important that, wherever possible, ISPA should have a strategic catalytic impact relating to a country's overall investment needs rather than subsidising ad-hoc investments. Agenda 2000 also calls for an increased multiplier effect from structural resources by the greater use of forms of assistance other than direct grants. In particular:

I. scarce public sector resources should have a leverage effect, especially by mobilising private sector cofinancing;

II. assistance from ISPA should not "crowd out" other potential financing, including local sources and project-generated revenues.

2.6.5 The Commission will be seeking to maximise the multiplier effect of ISPA by promoting increased recourse to sources of loan and equity financing and in particular from the private sector. An emphasis on seeking alternative sources of funding will help to dispel any tendency to always expect a high rate of subsidy and might also be considered as important in supporting the efforts made by the applicant countries to move towards market economies.

2.6.5.1 The aim, therefore, is to differentiate the rate of EU assistance under ISPA according to the type of project and financial package involved. This will be up to 85% of public or similar expenditure; the precise level of support will also take account of:

I. the overall Community interest in seeing a specific project implemented;

II. a project's capacity to generate revenues;

III. the application of the "polluter pays" principle.

2.6.5.2 Such an approach gives the flexibility to use a lower rate of assistance for those projects where loan finance is a possibility, with the upper limit allowing the Commission to modulate the rate on a case-by-case basis.

2.6.6 The ISPA articles on financial management reflect the provisions of Title IX of the Financial Regulation applicable to the general budget of the EU, which contains detailed financial rules relating to external aid. In essence, this means that projects adopted by the Commission would be covered by a Financing Memorandum to be drawn up between the Commission and the beneficiary country. The details of the payment mechanisms for projects, as well as the management, evaluation and control systems, would also be incorporated in the Financial Memoranda. Where permitted by the Financial Regulation, these mechanisms and systems will be similar to those of the Cohesion Fund.

2.6.6.1 However, with respect to budgetary commitments, a simpler and more efficient system will apply under ISPA; this will operate on the basis of multi-annual projects. The initial commitment will be made when the decision to grant EU assistance is made by the Commission. Commitments in respect of subsequent annual instalments will be made at the start of each budgetary exercise and at the latest by 1 April of the year in question.

2.6.6.2 Whilst improving the management of multi-annual measures, this exception to the Financial Regulation, whereby budget appropriations are authorised for the duration of one financial year, will have to be included in the Inter-institutional Agreement. In order to avoid too large a difference between the level of commitments and payments, and as an incentive to the efficient use of resources, assistance granted to a project where work had not begun within the contractual period scheduled in the Financial Memorandum would automatically be de-committed.

2.6.6.3 Such an approach will make it possible to take a coherent overall view of the operations to be undertaken for each project as well as facilitating a degree of decentralisation, thereby safeguarding management, control and evaluation. This means that, to the extent permitted by the Financial Regulation and agreed in the respective Financial Memoranda, the implementation of projects would be the responsibility of the CEECs, under the supervision of the Commission. As of 1 January 2000, and in any event not later than 1 January 2002, the beneficiary countries should have created the required management and control systems. Recourse, as necessary, to outside assistance would be possible until 1 January 2002.

2.7 Monitoring and evaluation

2.7.1 Evaluation and monitoring mechanisms for ISPA will be carried out jointly by the applicant country in question and the Commission, through procedures established in the Financial Memoranda. In particular, monitoring will be carried out by reference to quantified physical and financial indicators relating to the specific character of the project concerned and its objectives. During the implementation of projects, and after their completion, evaluation will similarly assess whether the original objectives can be, or have been, achieved. The evaluation capacity of the implementing and monitoring bodies in the CEECs will also be strengthened, as appropriate, by technical assistance.

2.8 Committee assisting implementation

2.8.1 In implementing the ISPA regulation, the Commission would be assisted by an Advisory Committee composed of representatives of the Member States and chaired by the Commission representative. The Committee would deliver opinions on matters referred to it by the Commission, where appropriate by taking a vote. The European Investment Bank (EIB) would participate in a non-voting capacity.

2.9 Timetable

2.9.1 The adoption of the draft ISPA regulation, together with its subsequent negotiation and consultation within the other EU institutions, will be undertaken in line with the overall timetable for approving the other pre-accession instruments in Agenda 2000.

3. General comments

3.1 In line with its previous Own-Initiative Opinion[1], the ESC broadly welcomes the Commission proposals for the reinforcement of the pre-accession strategy by offering a coherent programme to the CEECs to prepare them for accession to the EU.

3.1.1 The Committee agrees with the general objective of bringing together the different forms of support provided by the EU within the single framework of the APs and familiarising the CEECs with Union policies and procedures, inter alia, through the opportunity of participating in Community programmes.

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1 Re-inforcing the pre-accession strategy (CES 456/98), rapporteur Mr Hamro-Drotz
European Communities - Economic and Social Committee

3.1.2 The Committee further approves the decision to concentrate this assistance on measures relating to the environment and transport infrastructure, in line with the approach adopted for the revised Cohesion Fund.

3.1.3 The Committee has always stressed the importance of environmental issues and is concerned at the general lack of progress which has been made in this field. It notes that the candidate countries are, on the whole, facing more acute environmental problems than the existing Member States and wholeheartedly endorses the selection of the environmental acquis as one of the priority areas for ISPA assistance.

3.1.4 The Committee also endorses the choice of transport infrastructure as the second priority area. It considers that it is essential to create a coherent network out of the current patchwork of transport links and to achieve safe and speedy connections between countries in order to increase the efficiency of the Single Market and maximise the potential of European trade.

3.1.4.1 As Commissioner Kinnock has stated, "Borders cannot open properly and goods and people will not move freely unless the roads, railways, airports and ports of Central and Eastern Europe are functioning effectively. The outline network is a first major step towards ensuring that this can be achieved".

3.2 The Committee notes that best available estimates suggest that the total investment needs for environmental acquis compliance in the ten CEECs is of the order of Euro 100 billion.

3.2.1 The Committee also notes that the transport infrastructure investment required has been estimated at Euro 50-90 billion over 15 years and that this relates solely to the cost of upgrading existing road and rail facilities to EU standards and to meet the anticipated growth in traffic, without considering any new links.

3.2.2 Against this total requirement of some Euro 170 billion, it is proposed that the EU provide assistance of Euro 1 billion per annum over the period 2000-2006 - a total of Euro 7 billion or about 4% of the anticipated investment needs.

3.2.2.1 The ESC notes that the proposed structural action funding under the EU Regional Policy and Cohesion Funds has been increased for the period 2000-2006, as compared with the period 1993-1999, on the following scale (in billions of Euros):

3.2.2.2 The ESC considers that consideration should be given to re-apportioning the amount of Euro 45 billion allocated to the applicant countries between the pre-accession and post-accession phases. It would point out that it is currently considered unlikely that any of the applicant countries will be admitted until well into the funding period and the number of countries gaining entry in the first wave may be limited. The period during which post-accession funding will be available will, therefore, be restricted and only a few countries may be eligible to benefit from it.

3.2.2.3 In the light of this situation and in view of the desirability of bringing the applicant countries into line with the environmental acquis and up-rating their transport infrastructure as soon as possible, the ESC would recommend that a greater proportion of the Euro 45 billion should be allocated to the pre-accession phase; if this were increased to, say, Euro 2.5 billion per annum, or Euro 17.5 billion in total, this would go some way towards closing the present gap between the investment required in the pre-accession period and the funds available.

3.2.3 Additional funding sources will be available from the European Investment Bank, the European Bank for Reconstruction and Development, the World Bank, public sector financing within the CEECs and the application of the "polluter pays" principle in the field of environmental improvement within each applicant country.

Structural Funds:	**1993-1999**	**2000-2006**
Objective 1 regions	119	140
Other Objective regions	59	70
Total Structural Funds	178	210
Cohesion Fund	17	20
Total existing Member States	195	230
Applicant countries:		
Pre-Accession	-	7
Post-Accession	-	38
Total Applicant Countries	-	45
TOTAL	195	275

3.2.3.1 It is also important that parallel funding should be available from individual Member States.

3.2.3.2 Nevertheless, it seems likely that the aggregate funding available from all of these sources will fall far short of the total investment required, particularly in respect of compliance with the EU's environmental acquis, and it has to be questioned whether sufficient private sector financing can be attracted to permit completion of these objectives within an acceptable timescale.

3.2.3.3 The ESC believes that, in order to attract the maximum level of private sector co-financing, it will be necessary to develop a genuine industrial partnership strategy. In particular, there should be an avoidance of excessive pre-programming in order not to stifle private sector initiative and to provide scope for an innovative private-sector approach.

3.2.3.4 Efforts should be made to increase the availability of new sources of funding by, for example, putting banking systems within the applicant countries on a sound footing and strengthening stock markets, thereby helping to attract domestic and external private capital.

3.2.3.5 The ESC would also point out that the investment required is not only financial but technological. It will, therefore, be essential to establish fixed rights of ownership, protection of industrial intellectual property and legislation and practices in the field of competition which conform to EU standards.

3.3 In view of the likely shortfall in available funds, the ESC considers that ISPA assistance should be concentrated on those projects and areas which offer the prospect for making the greatest impact and not be dissipated over too wide a range of projects.

3.3.1 For this reason, the ESC approves the decision to limit ISPA assistance to projects with a minimum value of Euro 5 million.

3.3.2 The ESC notes that the estimates of funding required for the transport infrastructure do not include any new links and would point out that, while the upgrading of existing facilities will produce certain benefits, the impact on trade flows within the CEECs, between CEEC countries and between the CEECs and the EU Member States will be limited without the provision of new links and the beneficial effects on the economies both of the CEECs and the existing Member States will be reduced.

3.3.2.1 Efficient transport systems are essential for the Union's economy and to ensure that the basic EU principle of free movement of goods and people can function. These issues also have a direct bearing on human safety and the environment. Very few of the candidate countries have put road transport high on their list of priorities although they have experienced a marked increase in car ownership. Insufficient national funds are available to make the necessary infrastructure improvements to meet the additional burdens being placed on transport systems. Modern trans-European transport networks are vital for European competitiveness, sustainable long-term growth and employment; they are also essential for candidate countries to be able to develop competitive economies that are capable of coping with the demands and exploiting the opportunities of the Single Market.

3.3.3 The ESC therefore considers that the strategy of upgrading transport infrastructure within the CEECs must be reinforced by the construction of new links between the CEECs and the EU Member States. It notes that access to the TENs forms part of the ISPA programme but that the cost of providing this has not been included in the estimates of funding requirements. Given the disappointing lack of progress with the existing TENs projects, this raises the question of how such links are to be financed.

4. Specific comments

4.1 The ESC endorses the Commission's view that the commitment of scarce public sector resources should have a leverage effect, particularly in terms of attracting private sector co-financing, and that the application of ISPA assistance should not displace other sources of finance.

4.2 The ESC approves the proposal to maintain flexibility in the rates of assistance, depending on the availability of alternative financing, but notes that rates of assistance can be up to 85% of project cost and would advocate that, in view of the relatively small amount of ISPA funding available, this rate should be regarded as an upper limit and not allowed to become the norm.

4.2.1 In order to maximise the synergy effect, efforts should be made to link ISPA projects to established projects in the beneficiary countries, thereby creating better co-ordination with national budgets and improving the prospects for private-sector financing.

4.3 The ESC welcomes the Commission's pragmatic approach to project selection in applying the criteria of the overall Community interest in seeing a particular project implemented, the capacity of the project to generate revenues and the application of the "polluter pays" principle.

4.4 The ESC notes that assistance given under ISPA may take the form of non-repayable grants, repayable loans, loan-guarantee provisions, interest-rate subsidies, risk-capital participation or other forms of financial arrangement. In this, it differs from the Cohesion Fund, which disburses non-repayable direct assistance. The Committee approves this departure on the grounds that it will improve the flexibility of operation and permit appropriate financing to be provided on a case-by-case basis in the light of individual project requirements. In particular, repayable loans have an enhanced multiplier effect since, when they are repaid, the funds can be recycled to other projects.

4.4.1 The Committee also approves the fact that the European Investment Bank will be asked for its advice on the type of financial package which is most appropriate for each project.

4.5 The Committee gives its approval to the fact that funding will be allocated to the beneficiary countries on the basis of population, land area and per-capita GDP in purchasing power parities, with those countries having the lowest per-capita GDPs receiving the greatest assistance. It also welcomes the fact that due account will be taken of the deficiencies of each country in environmental and transport infrastructure.

4.6 The ESC agrees with the Commission on the need to ensure the proper monitoring, evaluation and control of projects. It notes that the requisite management and control systems should have been established in the beneficiary countries by 1 January 2002 and recommends that the prior creation of these mechanisms should be a pre-requisite for any ISPA funding. It also considers that the overall functioning and effectiveness of the ISPA programme should be reviewed on a regular basis.

4.7 The ESC approves the use of a simpler and more efficient system of budgetary commitment and particularly the provision that assistance granted to a project where work has not begun within the specified financial period will be automatically decommitted.

4.8 The Committee notes that, where industrial regeneration or rural development projects under the Phare programme require transport infrastructure improvements, these will be financed by the Phare programme. It also notes that funding may be provided under ISPA for feasibility studies and technical assistance to projects which will be financed under the Phare programme. The Committee accepts the logic of this but would underline the need to ensure that this over-lapping does not lead to any confusion or duplication of funding between the two programmes.

4.9 With regard to technical assistance, the Committee recommends that due attention should be given to the development of human resources, administrative capacity and the constructive participation of the social partners and other representatives of civil society in the transition process.

5. Conclusion

5.1 The ESC approves the Commission's proposals for an ISPA and agrees with the need for it to have a strategic catalytic impact but is concerned at the disparity between the scale of the assistance being provided and the total amount of funding required. It therefore believes that the Euro 45 billion allocated to the applicant countries for the period 2000-2006 should be more evenly divided between assistance in the pre-accession and post-accession phases.

Brussels, 10 September 1998.

The President
of the Economic and Social Committee
Tom JENKINS

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Directorate for Communications
Specialized Department for Information and Visits

EUROPEAN UNION: FUNDING FOR GROWTH
Catalogue No. : CES-98-024-EN
1998 - 45 Pages DE, EN, FR

EN

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Catalogue Number: ESC-98-024-EN