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ECSC LOANS AND THE REDEVELOPMENT OF REGIONS
SERIOUSLY AFFECTED
BY INDUSTRIAL DECLINE

(Communication from the Commission)

SUMMARY

With the reform of the Structural Funds the ECSC's financial instrument is expected to make a significant contribution to the redevelopment of regions in industrial decline, especially the zones most affected by the restructuring of the coal and steel industries.

Since the procedures and criteria for granting ECSC conversion loans have not been reviewed since 1987, it is necessary to adjust them in order for ECSC aid to form an effective part of the new approach desired by the Commission.

This memorandum sets out the proposed approach for using ECSC conversion loans. The main features of that approach are as follows:

- the inclusion of conversion loans in the overall planning of structural measures and, in particular, recourse to operational programmes;

- adjustment of the eligibility criteria for granting ECSC conversion loans so as to permit the co-financing of the rehabilitation of ECSC industrial wasteland, the provision of major infrastructure to generate new activities and jobs, technology transfer and risk capital; this adjustment will be applicable to all the coal and steel regions in decline which meet the ERDF eligibility criteria, it being understood that the current system of subsidized conversion loans under the ECSC operating budget remains unchanged;

- decentralized management of aid, including that in the form of subsidized loans;

- concentration of aid in the priority zones most affected by the restructuring of the coal and steel industry;
- improvement of the follow-up, checking and assessment of results by the creation of a technical assistance service.

This approach to ECSC redevelopment activity implies simplification of the rules and procedures for the granting and management of loans, together with good coordination at all levels. The aim, at the operational level, is to arrive at an optimum combination of Community loans and subsidies within the framework of the operational programmes.

It is proposed that, on the basis of the new eligibility criteria, ECSC loans operations under the operational programmes should, where necessary, be accompanied by ERDF interest-rate subsidies and ESF aid for adapting training to requirements. This use of the Structural Funds does not imply any transfer of resources from the EEC budget to the ECSC budget.

Since ERDF resources for the eligible regions are limited, the allocation of part of the funds in the form of interest-rate subsidies for redevelopment loans would increase their economic impact.

COMMUNICATION FROM THE COMMISSION

ECSC LOANS AND THE REDEVELOPMENT OF REGIONS SERIOUSLY AFFECTED BY INDUSTRIAL DECLINE

1. The ECSC Treaty makes provision for the financing of programmes to create new, economically sound activities or to restructure businesses capable of reabsorbing redundant workers into productive employment (Article 56(2)(a). On this basis, the Commission has instituted ECSC conversion loans for businesses.

2. At present, the use of the ECSC loan instrument for conversion must fit in completely with the new approach set out in the framework Regulation (1) on the reform of the Structural Funds. Article 2 (3) of the framework Regulation lays down that "the other existing financial instruments may contribute, each according to the specific provisions governing its operations, to any measure supported by one or more of the Structural Funds in connection with one of the above-mentioned five objectives".

   The article states that "where appropriate, the Commission shall take measures to enable these instruments to make a better contribution to the objectives set out in Article 1".

   Thus the Commission initially set out the principles under which loan instruments, including those of the ECSC, were to figure in the new approach as laid down by the above-mentioned framework Regulation (2). It announced that it would determine the procedures for applying these provisions and principles.

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(1) Council Regulation (EEC) No 2053/88 of 24 June 1988.
(2) Com(88)244 of 23 December 1988: "The EIB, the other financial instruments and strengthening economic and social cohesion".

3. The aim of this memorandum is to define the procedures for ECSC loan interventions in relation to the requirements arising from the application of Article 56(2)(a) of the ECSC Treaty, and in liaison with the reform of Structural Funds, with the advantage of all the coal and steel regions in decline which meet the ERDF eligibility criteria.

The following report sets out the manner in which ECSC's financial instrument will be integrated into the new approach, beginning at the stage where the Commission establishes the Community support frameworks to assist regions undergoing redevelopment (I). It sets out the need for adapting operational criteria for future operations using this financial instrument, so that it may make a full contribution towards achieving the goals set (II).

In this new approach, it is agreed by the Commission that ECSC's limited resources should be distributed in a balanced way to the advantage of actions for readaptation in favour of workers coming from ECSC industries, and to encourage the financing, by means of rebated loans, of investments which create new activities.

In conclusion, a number of operational proposals are made (III).

I. INTEGRATION OF ECSC LOANS INTO THE NEW APPROACH

4. The Commission first published the operational principles for ECSC conversion loans on 27 July 1977 in Official Journal C178. Subsequent amendments and communications have appeared in the OJ on several occasions (3).

Developments in the ECSC industries, and in particular the long succession of restructuring programmes, firstly in the coal and then in the steel sector, have regularly led the Commission to modify the operating arrangements for the ECSC financial instrument.

5. The most recent alteration to the procedures and conditions for granting ECSC conversion loans was in 1987. Since then, the chronic crisis affecting the ECSC industries has deepened, and the number of operations under the heading of conversion has gradually increased.

In 1988, a total of ECU 452 million was paid out in conversion loans, i.e. almost 50% of all ECSC loans. Most of these were global loans granted to financial intermediaries, some of which are among the most prominent national financial institutions.

(3) OJ C82, 29 March 1979; OJ C16, 22 January 1980; OJ C276, 24 October 1980; OJ C54, 13 March 1981; OJ C95, 16 April 1982; OJ C191, 16 July 1983; OJ C173, 1 July 1987.

Such developments as the massive redundancies in the steel industry, the appearance of significant long-term unemployment in the ECSC regions and the gloomy social outlook resulting from the new wave of restructuring in the coal industry justify the continuation and the reinforcement of redevelopment efforts.

6. The new approach laid down in the framework Regulation and the implementing Regulations under the reform of the Structural Funds should thus heighten the effectiveness and increase the level of ECSC loans in coal and steel regions in decline which meet the ERDF eligibility criteria. Increased use needs to be made of conversion loans to aid the setting up of new, economically sound activities capable, either directly or in due course, of reabsorbing into productive employment the surplus labour resulting from the coal and steel crisis. Granting interest subsidies for these loans will stimulate demand and promote new investment initiatives.

7. Loans and their place in the Community support frameworks (CSF)

The Commission has already stated (4) that, in view of economic trends in those sectors which it was the ECSC's business to finance, the Community was and is obliged to "play a part in restructuring and converting declining industrial regions".

There is therefore a need to organize this ECSC contribution in such a way that it fits into the planning of the Community's structural financial activities in a relevant and balanced manner. The drawing up of Community support frameworks offers the first opportunity to set out the objectives of potential ECSC operations in the eligible regions or zones which meet the ERDF eligibility criteria.

However, in doing this, it is important to take account of the specific nature of ECSC loan operations, or indeed of loans in general. This form of intervention is used in the first instance in response to an initiative from private or public sector investors. The choice of whether or not to borrow is dependent on the structure of their financing plan in the medium or long term. Their decision is closely linked to market conditions and to the whole financial environment of their activity. The possibility of their obtaining grants or subsidies compatible with Community law, from whatever source, therefore has a direct influence on their recourse to loans and on the amounts involved.

(4) Com(88)244 of 23 December 1988

It is therefore proposed, as the Commission has already indicated, that the economic objectives and priorities should be clearly identified in each CSF and that, as far as possible, investments should be divided into categories. Thus use could be made of ECSC conversion loans, which may be subsidized (see item 13 et seq.), for certain investments with substantial net revenues or for some deferred-revenue investments. On this point, it is specified that unrebated conversion loans should not be considered as aid.

For each CSF involved, a realistic three-year forecast of ECSC loan possibilities will be made. This forecast will be based on ECSC loan operations in the corresponding priority zones during the three preceding years. In cases where no reference to past ECSC loan activity is possible, the Commission will outline the volume of ECSC loan operations by analogy with the situation in comparable zones.

In these forecasts, which will be part of the integrated financing plan for each CSF, due account will be taken of the needs identified by the Commission from the redevelopment plans submitted to it. The forecast volume will also be determined by the extent of the financial structures on hand for mobilising ECSC conversion loans. Particular account will be taken of the total amounts of global loans granted at the request of the authorities to financial intermediaries.

8. <u>ECSC loans as part of the programme framework</u>

Article 56 (2)(a) of the Treaty establishing the ECSC made provision, as early as 1960, for loan financing of programmes to develop new, economically sound activities.

In this new approach, it is stated that assistance shall be predominantly in the form of operational programmes. Article 5 (5) of the framework Regulation states that an operational programme "shall comprise a series of consistent multi-annual measures which may be implemented through recourse to one or more Funds, to one or more of the other existing financial instruments, and to the EIB".

It is therefore intended that, as far as possible, loan operations should increasingly be aimed at programmes in which the ECSC financial instrument will supplement contributions by the Structural Funds (ERDF and ESF) and, where applicable, by other financial instruments.

Implementing this new approach requires close cooperation between the Commission departments. It means that the financial institutions administering ECSC loans must work in close association with the departments and the economic operators charged with carrying out such programmes. As this is a recent form of intervention, the Commission is to propose that it be applied initially on a trial basis in selected zones, where the authorities have expressed a desire to combine loans and grants for optimum financing of particular projects.

An illustration of this approach relates to the development of industrial sites vacated by ECSC industries with the aim in due course of setting up new, economically viable activities (see item 14). Given the scale of the finance required to redevelop the sites, but also in view of the interest shown by potential investors, it is proposed that assistance from, for example ERDF, ESF and ECSC should be combined in some of these programmes.

In this case, ERDF assistance could take the form of interest subsidies on loans granted by the ECSC. The operation of these subsidized loan schemes will be able to take account of ECSC experience in financing industrial investment through subsidized conversion loans.

The ESF contribution to these programmes could take the form of, for example, measures to bring the training of former ECSC workers up to the level required for them to be the first to take advantage of the new jobs created.

9. Concentration of ECSC assistance

In 1984 the Commission defined a special method for the ECSC to arrive at a satisfactory concentration of its industrial conversion operations. Apart from the need to target these operations on those areas which have lost the most jobs as a result of the crisis in ECSC industries, this concentration has until now made for economical use of the ECSC's limited budgetary resources, particularly for granting interest subsidies linked to loans.

Now that the concentration of all Community structural resources is reflected in the reform of the Structural Funds, the Commission must confirm the high concentration of ECSC operations in the zones most affected by restructuring or by the disappearance of ECSC industries.

10. Decentralized management of ECSC loans

In its memorandum of 23 December 1988 (5), the Commission acknowledged that "with a view to effectiveness, procedures for granting and administering Community assistance will be as simple and as decentralized as possible". The Commission added that "ex-post monitoring will be systematically preferred to ex-ante appraisal and to prior grant authorizations, which will be rendered redundant by the programming exercise, providing as it does clearer information on the implementation of Community policies".

The administration of global conversion loans is already to some extent decentralized. This has been made possible thanks to the contractual arrangements implemented by the financial intermediary institutions with the aim of distributing subsidized sub-loans to their clients to finance their eligible investments.

Further steps should be taken, however, in delegating tasks and in simplifying the associated rules and procedures. This implies, above all, a raising of the ceiling on the value of cases which may be administered on a decentralized basis.

It is therefore proposed that, in addition to the loan contracts signed with financial intermediaries, which will still have to offer sound financial guarantees to cover the risks inherent in lending, the Commission should propose agreements stipulating the precise terms for the decentralized administration of loans and, in particular, for the handling of the large number of dossiers which this implies.

11. Follow-up, technical assistance, checking and evaluation of results

The normal counterpart to the decentralized administration of loans is a regular follow-up, checking and evaluation of operations.

Until now, the Commission has followed up loans by regular contacts with the contractors and in particular by spot checks and the sending of summary reports by the recipients.

It undertakes in-depth checks on ECSC loan activities involving both the financial intermediaries and the recipient companies, within two years of disbursement of the loan.

Henceforth, the Commission must incorporate strengthened, systematic follow-up, evaluation and checking into the process of granting loans.

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(5) Com. (88) 244

In the operational programmes to which the ECSC financial instrument will contribute, the follow-up committees will take an integrated approach to the assessment of the progress of loans and of how they are combined with subsidies. Wherever possible, the Commission will endeavour to have follow-up meetings organized as often as necessary with the financial intermediaries administering the global loans.

In assessing the economic impact of Community assistance, a wider range of information on ECSC loans (amount, identification of investments financed and jobs created) will be used.

More attention will be given to checks, not only on the basis of reports submitted by the borrowers but also thanks to improved integration of the checks with prospecting and follow-up activities, the effect being to increase the effectiveness of inspection visits.

Within the framework of checking activities linked to the progress of operational programmes, arrangements must be made for the simultaneous participation of all the departments involved.

Finally, the setting up of a mobile technical assistance service, to facilitate the decentralized administration of loans, should help to ensure the free flow of information between the Commission and its agents and resolve local problems without delay.

12. Participating in this way in the new approach required by the Commission and the other Community institutions will provide some of the necessary conditions for increasing the effectiveness of ECSC loan activities in the field of redevelopment. The other conditions will depend on adjustments to the intervention criteria for this loan instrument.

II. ADJUSTMENTS TO THE OPERATIONAL CRITERIA FOR GRANTING SUBSIDIZED LOANS

13. The Commission recognizes the importance attached by economic operators, especially investors, to obtaining subsidized loans for creating new activities in ECSC areas. Considering that it is possible to manage such loans in a decentralized manner and that this type of measure has a relatively minimal effect on the Community's budgetary resources, it is now time to consider adjusting the criteria for granting such loans in coal and steel regions in decline which meet the ERDF eligibility criteria. The aim is to ensure that in these zones subsidized loans make a greater contribution to redevelopment at the lowest possible cost, thereby supplementing the range of measures announced in the reform of the Structural Funds.

The adjustment of the current criteria is aimed at four types of operation:

a) the rehabilitation of industrial land formerly used for ECSC activities;

b) major infrastructure projects generating new activities which will provide productive employment for the available manpower;

c) technology transfer from the ECSC industries;

d) the financing of risk capital for innovative SMEs.

All four types of operation form an integral part of the problem of the redevelopment of ECSC zones and, generally speaking, generate revenue at different points in time.

14. Industrial wasteland

Rehabilitation of industrial wasteland is already partly eligible for ECSC conversion loans. Such loans may be granted for the creation of industrial zones with prefabricated factory units and for the redevelopment of industrial sites, particularly those previously occupied by ECSC industries, provided that it can be established that the investments are intimately linked with the creation of new activities and new jobs.

The use of conversion loans for the rehabilitation of industrial wasteland left by the ECSC has not hitherto been made easy. The payment of interest-rate subsidies from the ECSC budget has been blocked by the impossibility of forecasting several years in advance the number and type of new jobs that investments on former industrial sites could generate.

To a limited extent, therefore, the dismantling of old infrastructures and the clearance, cleaning up and development of industrial sites have generally been financed by subsidies, particularly from the ERDF. But given the extent of the industrial wasteland in certain ECSC priority zones (Industrial South Wales, Nord-Pas-de-Calais etc.), it will be difficult to finance by subsidies alone all the investment necessary for their rehabilitation and the subsequent generation of new economic activities.

It is therefore proposed that ERDF resources be used, if necessary, to subsidize ECSC redevelopment loans for the rehabilitation of ECSC industrial wasteland. Granting an interest-rate subsidy, limited to a certain percentage during the first few years of each loan, would reduce the financial burden on investors by giving them the prospect of a quicker return on their investment.

15. Provision of major infrastructure

A number of coal and steel regions in decline which meet the ERDF eligibility criteria will be given new infrastructure which, during construction, will provide jobs for a certain proportion of former ECSC workers. For example, large construction sites could provide employment for several years for former steel workers, provided they receive appropriate training. The new infrastructure could also attract new economic activities. Financing part of these investments by means of subsidized loans can be justified by the positive economic and social impact on the activity base in the areas served.

Here too it is proposed that the ERDF should be able to offer interest-rate subsidies, on certain conditions, in order to reduce the capital cost during the construction phase.

16. Technology transfer from the ECSC industries

The coal and steel industries are a source of high-level expertise (production methods, technical processes, application of new technologies etc.). It would be absurd to witness the loss of this stock of knowledge and know-how in coal and steel regions in decline. Measures must be taken to facilitate its transfer to other sectors of activity. For example, certain incineration, alloy production and production management techniques mastered by ECSC firms now being restructured could be of benefit to other firms, even small ones, which could adapt them to their needs.

Such technology transfer often involves major costs but provides no immediate return. ECSC conversion loans can help to co-finance such transfer. It is proposed that in coal and steel regions in decline which meet the ERDF eligibility criteria the ERDF provide interest-rate subsidies for these loans during a limited period to facilitate such technology transfer. Similarly the ESF, in concert with ESCS and ERDF measures, could take steps to help adapt training in line with the needs of technology transfer. It is understood that the implementation of such measures should respect the Community rules regarding State aids.

17. Financing of risk capital

For some years now the Commission has been involved in innovation financing and the development of risk capital activities.(7)

Most of the financial institutions currently undertaking ECSC loan activities in priority redevelopment zones have, for their part, set up risk-capital financing structures for supplying capital to innovative firms.

In view of the existence of these networks of financial institutions in coal and steel regions in decline which meet the ERDF eligibility criteria and the large capital requirements of the SMEs in those zones, it is proposed that on the basis of the ECSC's traditional conversion loans these intermediaries should be able to convert all or part of the loans granted into share capital, on the lines of the arrangements in NCI IV. The relationship between ECSC as lender and the financial intermediaries as borrowers will not be much changed.

It is also proposed that, in conjunction with such loans/acquisitions of holdings, ERDF resources allocated to risk guarantee funds should be used to help acquire such holdings. This will concern in particular SMEs utilizing high technologies or applying innovative processes.

18. The adjustment, as described, of the criteria for granting ECSC redevelopment loans will apply in coal and steel regions in decline which meet the ERDF eligibility criteria. It should allow the ECSC financial instrument to be matched more closely to redevelopment needs at a lower budgetary cost, since the interest-rate subsidies granted by the ERDF would be limited to the amount necessary to prime the loan-financing operations. The granting of these interest-rate subsidies by the ERDF does not imply any transfer from the EEC budget to the ECSC budget. In this way, the budgetary cost of interest-rate subsidies for loans would no longer be borne exclusively by the ECSC's limited resources.

This combination under the operational programmes of the use of a Structural Fund and a loan instrument designed to facilitate ECSC redevelopment would comply with the letter and the spirit of the reform of the Structural Funds. At the same time it would guarantee greater effectiveness of ECSC loans under Article 56(2)(a) of the Treaty.

(7) COM(86)723 of 15 December 1986 on financial engineering.

The involvement of the ESF in such operational programmes would make it possible to adapt training in line with the investments financed by ECSC loans and the interest-rate subsidies granted by the ERDF and to improve access for former ECSC workers to the new jobs that will be created.

III. CONCLUSIONS

19. The changes in the conversion of the ECSC industries and the reform of the Structural Funds make it necessary to adjust the criteria for granting ECSC conversion loans and to include this type of operation in the new approach under objective No 2.

The main approaches proposed in this memorandum can be summarized as follows:

- inclusion of ECSC loan operations in the Community support frameworks in the zones concerned;
- contribution of this loan instrument to operational redevelopment programmes;
- adjustment, in consequence, of the eligibility criteria for ECSC conversion loans, with a view to implementing subsidized loans under the ERDF; it being understood that the current system of subsidized conversion loans under the ECSC operating budget remains unchanged;
- combination, within the framework of the operational programmes, of ECSC conversion loans, ERDF subsidies granted in the form of interest-rate subsidies and, where appropriate, ESF subsidies; this combination does not imply any transfer of resources from the EEC budget to the ECSC budget;
- decentralized management of loans and simplification of current regulations and procedures;
- improvement of the follow-up, checking and assessment of results.