The Reform of the EU Structural Funds: 10 Questions on the Magnitude and Direction of Reforms*

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Introduction

As part of the Agenda 2000 package, the EU Structural Funds are currently going through a reform process in order to increase their effectiveness and to prepare the ground for the gradual integration of prospective new Member States into the EU's structural policy. At the Cardiff European Council of June 1998, a political deadline was set to conclude the reforms by March 1999. Due to the complexity of the issue and the multiple actors involved, it is extremely difficult to predict the outcome of these negotiations. Nevertheless, by addressing 10 questions the reforms raise, this article aims to sketch the likely implications for the implementation of the Structural Funds in the next programming period, 2000-2006.

EU Structural Funds: Principles and Objectives

Since the 1980s, the European Union (EU) has become increasingly concerned about its internal economic and social cohesion. Parallel to the deepening and widening process of European integration, the EU's cohesion policy and its main instruments, the EU Structural Funds,[2] have been gradually strengthened. The successive multi-annual financing agreements of 1988 and 1992 allowed substantial increases in the budgetary resources for structural operations.[3] At the Brussels' European Council of February 1988, a political agreement was reached on doubling the budget of the Structural Funds in real terms between 1987 and 1993. Subsequently, Member States agreed at the Edinburgh European Council in December 1992 that the budget for structural operations would be further increased, in particular for the cohesion countries (Greece, Ireland, Portugal and Spain).

These budget increases were linked to a series of major reforms of the Structural Funds that were undertaken in 1988. The legal basis for these reforms had already been inserted in the Single European Act of 1986 (cf. Art. 130d EC Treaty) and the reforms were subsequently introduced through a number of EC regulations adopted by the Council in June and December 1988. In the course of 1993, these regulations were modified, although at that time this did not involve any fundamental changes comparable to those made in 1988. Therefore, the 1993 regulations, governing the EU Structural Funds, are generally considered to be merely a consolidation of the 1988 reforms.[4] Indeed, the main principles introduced at that time continue to govern the Structural Funds today and the forthcoming Agenda 2000 reforms will reconfirm the importance of these principles.

The first principle that was established in 1988 was the "concentration" principle. This meant that the Structural Funds were to be concentrated on a limited number of priority Objectives. For the programming period 1994-1999, the following seven Objectives were defined:[5]

- **Objective 1**: Promoting the development and structural adjustment of regions whose development is lagging behind (ERDF, ESF, EAGGF-Guidance, FIFG);
- **Objective 2**: Converting the regions, frontier regions or parts of regions (including employment areas and urban communities) seriously affected by industrial decline (ERDF, ESF);
- **Objective 3**: Combating long-term unemployment and facilitating the integration of young people, and persons vulnerable to exclusion from the labour market, into working life (ESF);
- **Objective 4**: Facilitating the adaptation of workers of either sex to industrial changes, including changes in production systems (ESF);
- **Objective 5a**: Promoting rural development by speeding up the adjustment of agricultural structures in the framework of the reform of the Common Agricultural Policy (EAGGF-Guidance, FIFG);
- **Objective 5b**: Promoting rural development by facilitating the development and structural adjustment of rural areas (ERDF, ESF, EAGGF-Guidance);
- **Objective 6**: Promoting the development and structural adjustment of regions with an extremely low population density (ERDF, ESF, EAGGF-Guidance, FIFG).

Moreover, Structural Fund support had to become part of the multi-annual integrated programmes (the "programming" principle). In this regard, it was aimed at ensuring better coordination of the various measures. The programme-approach had far-reaching implications for the management of the Structural Funds both at European and Member State level. The programming cycle consists of various stages. Initially, Member States have to submit their development plans to the European Commission. On the basis of these plans, the Commission conducts negotiations with the Member States that

* *Un bref résumé de cet article en français figure à la fin.*

result in the adoption of a Community Support Framework for the respective countries and regions. Subsequently, these framework agreements are translated into several, more detailed, operational programmes. Since the 1993 regulations entered into force, Member States have also had the opportunity to negotiate so-called Single Programming Documents, which essentially constitute a merger of the provisions in the Community Support Framework and those in the respective operational programmes. Hence, the underlying idea for this modification was to shorten the programming procedure.

Closely related to the programming principle, the 1988 reforms also established the "partnership" principle requiring close cooperation between the European, national and sub-national authorities and bodies involved in the entire policy process. Though the partnership principle has been implemented in various ways in the different Member States, it has led in general to a number of fundamental changes. One of the most obvious consequences was that regional and local authorities, as well as economic and social partners and various interest groups, etc., have become more closely involved in the design and implementation of the Structural Funds programmes, and that they have increasingly established direct links with the European Commission for these purposes.

Finally, the "additionality" and "co-financing" principles were confirmed as key features of the Structural Funds. Hence, the EU Structural Funds cannot, in principle, be used to replace Member States' funds while the States are obliged to provide up to half of the funds (depending on the objective) needed for the programmes and projects that are eligible for structural support.

Structural Funds budget for 1994-1999 and the concentration principle in practice

For the 1994-1999 period, a total budget of EUR 138.2 billion was allocated to the Structural Funds, which represents only a small fraction of the total gross national product (GNP) of all EU Member States (less than 0.50%). The largest part of the total budget was reserved for Objective 1 regions (68%). More than 84% is allocated to the four regional objectives (1, 2, 5b and 6).

In absolute terms, Spain is the biggest recipient of Structural Funds (23% of the total budget) and just over half of the budget is allocated to just three Member States (Spain, Italy and Germany). The share of the four cohesion countries (Spain, Portugal, Ireland and Greece) amounts to 47% of the budget. When expressing the Structural Fund transfers in per capita terms, these four countries are the biggest beneficiaries.

In total, at present almost 51% of the EU population lives in areas which are eligible under one of the Structural Funds' four regional objectives. Objective 1 regions alone represent 26.6% of the EU population, which is a significant increase compared to the previous period (1989-1993), when it was 21.7%. It is generally recognised that the available budget for the Structural Funds has been widely spread over all EU Member States: a situation which was primarily the result of a political compromise that was needed to secure agreement among the Member States. Commission statistics show for instance that about 6.6% of the total EU population lives in regions eligible for Structural Funds, but which do not receive regional state aid under the stricter state aid rules. Obviously, the relatively limited budget and the way the Structural Funds are spread widely limit the effectiveness of the policy. Therefore, one of the main challenges for the next programming period will be to ensure a greater concentration of the Structural Funds and thus a reduction in the population coverage of the funds.

Agenda 2000 reforms negotiated under strict budgetary constraints

The negotiations on the Agenda 2000 package in general and the reform of the EU Structural Funds in particular are marked by at least one very distinctive feature. Contrary to the financial perspectives agreed in 1988 and 1992, there is at present little prospect of any further budgetary increase. Indeed, "budgetary stabilisation" became the buzzword in the negotiations. Therefore, there seems to be general political agreement that the ceiling for the EU's own resources will be maintained at 1.27% of the EU GNP throughout the period 2000-2006. However, maintaining the ceiling would imply that the next enlargement, which is assumed to take place in 2002/2003, should result in a significant redistribution of EU expenditure which at present goes to the current Member States. In particular, Spain has insisted that the own resources ceiling has to be reconsidered when enlargement occurs – in order to avoid the present Member States (in particular the cohesion countries) seeing their receipts significantly reduced following the accession of new Member States.

In the European Commission's proposal for the financial perspective for 2000-2006, the budget for structural operations (heading 2) would amount to almost EUR 286 billion (1999 prices) or around 36% of the total budget (pre- and post-accession). This allocation would limit structural operations to around 0.46% of the enlarged EU GNP.

The EU 15 would receive almost 84% (EUR 239.4 billion) of the overall budget for structural operations: the bulk going to the Structural Funds and in particular to the Objective 1 regions, while a total budget of EUR 46.9 billion would be reserved for the prospective Member States. From 2000 onwards, the applicants would receive EUR 1040 million annually in the form of pre-accession aid under the new Instrument for Structural Policies for Pre-Accession (ISPA).[6] For those countries subsequently acceding to the EU, almost EUR 40 billion would be required for their gradual integration into the structural policy.

It is important to note that the Commission's proposals implicitly included a request to current

Member States to reduce their Structural Fund receipts in order to reserve sufficient resources for the new members. Indeed, if the own resources ceiling were kept at 1.27% of the EU GNP, and the overall EU's financing mechanism essentially maintained, the European Commission claimed in Agenda 2000 that enlargement would be possible due to the expenditure growth margins currently available. However, sticking to the present ceiling would inevitably mean that EU payments to present Member States would have to be reduced in order to finance the enlargement. This point is already very obvious with regard to the heading for structural operations. According to the European Commission, the 0.46% ceiling for heading 2 should be maintained throughout the 2000-2006 period. However, in order to do so, the allocation to present Member States would have to be considerably below this ceiling. In fact, under the Commission's proposal, the structural operations' transfers to the existing 15 Member States would represent, on average, only 0.39% of the enlarged EU GNP over the period 2000-2006. By 2006 this percentage is set to decline to 0.33%. Hence, it is clear that, at least with regard to structural operations, the present Member States were *de facto* being asked to foot the bill for enlargement – which explains the fierce reaction from Spain. Moreover, it is obvious that the reduced Structural Fund transfers would in particular concern some of the current Member States, i.e. the cohesion countries.

The outcome of the negotiations on the new financial perspective will largely influence the future of EU cohesion policy, as it will determine the budgetary boundaries. It is likely that, as with the previous financial perspectives, agreement will first be sought on overall future EU financing, and that subsequently the revised regulations of the Structural Funds will have to be finalised. In any event, the main principles underlying the Structural Funds (concentration, programming, partnership, additionality) will remain at the centre of the policy. However, a new core principle will be added, i.e. the improved effectiveness of Structural Fund measures. Moreover, the proposals of the European Commission envisage a far-reaching decentralisation of the management of the Structural Funds, coupled with a clarification of the respective roles and responsibilities of the actors involved at European, Member State and sub-national level. The legislative proposals of the Commission, adopted on 18 March 1998, and the positions of the Member States are analysed below by addressing 10 questions regarding the likely implications for the implementation of the Structural Fund reforms.

Question 1: Will there be more concentration of the Structural Funds?

Given the fact that it is unlikely that the overall Structural Fund resources will be increased in the next programming period, the Commission proposals essentially call for a greater concentration of the Structural Funds by:

- reducing the number of priority objectives from seven to three;
- reducing the number of Community Initiatives from 13 to three (i.e. INTERREG, LEADER and EQUAL);
- lowering the population coverage of the funds from 51% at present to 35-40% towards the end of the next programming period (2006).

It is envisaged that the new Objective 1 would receive the highest priority, targeting the poorest regions in the Union. Around two thirds of the Structural Funds would be allocated to Objective 1. The eligibility criteria would not be fundamentally modified (those regions at NUTS II level whose gross domestic product (GDP) per capita in the last three years was less than 75% of the EU average). However, some regions will be included in the list for "special reasons" (outermost regions, current Objective 6 regions, etc.). Moreover, the Commission offered phasing-out arrangements for those regions which have surpassed the 75% threshold. These transitional arrangements are fairly generous as they anticipate a gradual phasing-out of Structural Fund support by 31 December 2005 (or in some cases by 31 December 2006) for Objective 1 regions which no longer qualify. According to the most recent available statistics on GDP per capita for 1994-1996, 10 regions would be eligible for transitional support, i.e. Hainaut (B), Cantabria (E), Corsica (F), "Arrondissements" of Avesnes, Douai and Valenciennes (F), Ireland, Molise (I), Flevoland (NL), Lisbon (P), Scottish Highlands and Islands (UK) and Northern Ireland (UK).[7]

In total, it is envisaged that Objective 1 regions will cover approximately 21.9% of the EU population. The Commission aims to have a complete overlap of the territory of these regions with those benefiting from state aid under Art. 92(3)a of the Treaty.[8]

The new Objective 2 would provide support for the economic and social conversion of regions suffering from structural difficulties. It brings together Objectives 2 and 5b of the current programming period, and extends them to other regions (urban areas in difficulties, regions seriously affected by the decline of the fishing industry). It is envisaged that the population covered by Objective 2 should not exceed 18% of the total EU population. Regions currently eligible under Objectives 2 and 5b, which no longer qualify for support in the next period, will continue to receive support on a transitional basis, but this will be phased out by 31 December 2003.

The new Objective 3, combining the current Objectives 3 and 4, would support the adaptation and modernisation of policies and systems relating to education, training and employment. Those areas not covered by Objective 1 or 2 would be eligible for this horizontal objective.

The reduction in the number of priority objectives does not seem to imply a fundamental re-arrangement of them. It merely concerns a regrouping whereby the scope of the present seven is essentially maintained. Moreover, this regrouping leads to a rather heterogeneous mixture of issues covered by the objectives. For instance, in the case of the new Objective 2, various issues are brought together under one heading (regions suffering from industrial decline, declining rural areas, crisis-hit areas dependent on fishing industry, urban areas in difficulty).

Regarding the planned reduction in the area covered by the funds, it remains to be seen whether the Commission will be very successful. Past experiences have shown that effectively concentrating the funds is apparently rather difficult for various reasons. The proposals already anticipate that certain regions may be eligible for EU support even though they do not strictly comply with the main eligibility criteria. Moreover, the proposed phasing-out arrangements are fairly generous with regard to time. Thus, while the Commission aims to reduce the area coverage to 35-40% of the total EU population towards the end of the next programming period, it may become rather difficult to achieve this target, and it seems likely that the actual area coverage will not constitute a significant reduction compared with the present situation.

Question 2: How will be the Structural Funds be allocated?

The Commission proposed a total budget for structural operations amounting to EUR 286 billion for the period 2000-2006. This includes:

– Structural Funds	EUR 218 billion
– Cohesion Fund	EUR 21 billion
– Pre-accession aid	EUR 7 billion
– Post-accession aid	EUR 40 billion

The budget for Structural Funds would be sub-divided as follows:

– 3 objectives	EUR 205 billion or around 94%
– 3 Community initiatives	EUR 11 billion or at most 5%
– innovative schemes and technical assistance	EUR 2 billion or 1%

The Commission further proposed that "*about*" two thirds of the Structural Funds would be spent on Objective 1 regions (i.e. about EUR 145 billion). During the negotiations in the Council, some Member States have asked for the word "about" to be deleted and for it to be specified that the Objective 1 regions would receive exactly two thirds of the funds. The outcome to this is not yet known. However, looking at the current regulation, it is likely that the new regulation will include a reference (in the annex?) which will stipulate in absolute amounts the precise allocation available for Objective 1.

Initially, the Commission proposed making an indicative breakdown – using transparent and objective criteria – of the allocation per Member State for only 90% of the Structural Fund budget, i.e. ca. EUR 185 billion. The remaining 10% was to be put in the performance reserve. However, subsequent opposition by the Member States during negotiations has forced the Commission to reduce this reserve to 4% of the total budget (see below).

The draft regulation stipulates that for Objective 1 the Commission and for Objective 2 the Commission, together with the Member State concerned, shall draw up the list of eligible regions. However, it is possible that these provisions will be modified during the negotiations. It seems likely that, at least for Objective 1, the Member States will insist that the list of eligible regions is annexed to the regulation.

Question 3: Why have several Member States already started drafting their development plans – anticipating the adoption of the new Structural Fund regulations?

The preparation of the development plans is a crucial phase for Member States. First of all, they have to provide convincing arguments demonstrating the existing structural weaknesses and thereby the need for EU support. Hence, the plans have to contain a detailed diagnosis of the economic and social situation of the region concerned and set out the proposed development strategy to overcome the existing problems. It is clear that the development plan should not just constitute a "shopping list" of projects for which funding is being sought. This would be rejected. It is necessary to define a comprehensive and integrated development strategy, which effectively addresses the specific problems and challenges of the region concerned.

Moreover, the Member States have to describe the management structures and procedures that will be put in place to monitor the implementation of the Structural Funds. In other words, the second basic requirement is to demonstrate that the Member States have the required administrative capacity to manage the funds effectively.

Thus, preparing the development plans is a cumbersome exercise for all Member States. The plans are the eventual outcome of a time-consuming consultation and negotiation process whereby various ministries, sub-national authorities, economic and social partners, interest groups, etc. are all asked to make contributions.

This broad consultation and negotiation process is extremely important for the smooth implementation of the programmes later on. Close involvement of the various partners from the initial phase onwards is likely to increase their commitment to subsequently implementing the development plan effectively.

The regulation specifies that the Member States have to submit their development plans within three months of the adoption of the Structural Fund regulations. This is obviously a rather short period, and therefore most Member States have started their preparations.

Following the submission of the development plans, the Commission will decide on the Community Support Frameworks or Single Programming Documents within six months. The total nine-month period constitutes one of the arguments that most likely swayed the Cardiff

European Council of June 1998 to agree to set March 1999 as the deadline for concluding the negotiations on the overall Agenda 2000 package.[9] Indeed, if the new Structural Funds programmes have to be launched early 2000 it is necessary to complete the negotiations by March 1999, so that the deadlines in the Structural Fund regulations can be observed.

Question 4: What is the status of the Commission guidelines per objective?

A new element in the proposed regulations is that after the adoption of the regulations and before the Member States submit their development plans, the Commission intends to publish a list of Community priorities for each objective in the Official Journal. This proposal has been highly criticised by various Member States for various reasons. First of all, the timing was questioned. Once the regulations have been adopted, the Member States have three months to prepare and submit their development plans. As mentioned above, most Member States and regions concerned therefore started preparations for their plans before the actual adoption of the EC regulations. Thus, in reality there will be very little time to take the Commission guidelines into account. Therefore, at least some Member States asked for these guidelines to be published earlier, in order to avoid any delays in the drafting of plans and the negotiations on the Community Support Frameworks or Single Programming Documents.

Moreover, there was general uncertainty about the precise nature of these "guidelines". Are the guidelines to be followed strictly by the Member States? Or, can the plans significantly deviate from the Commission's guidelines? In other words, are the guidelines to be considered as additional eligibility criteria?

It is worth consulting the guidelines that the Commission published in 1997 for the adjustment of the Structural Funds programmes for the programming period 1994-1999. In response to a question of a member of the European Parliament, the Commission stated that the purpose of those guidelines was "to provide a general policy and priority framework within which to make adjustments to current programmes".[10] Hence, the Commission argued that it was up to the monitoring committees and relevant authorities to decide what adjustments were needed to ensure maximum value for money from the Structural Funds. As regards the forthcoming guidelines for the next programming period, the Commission aims to ensure that its priority themes are known "in sufficient detail to be incorporated adequately in the programming process at national level". It is expected that the Commission will formally adopt and publish its guidelines at the time of, or soon after, the adoption of the Structural Fund regulations (i.e. within a month).

However, on 3 February 1999, the Commission published its draft guidelines for the period 2000-2006, thereby responding to some extent to the criticisms made by the Member States. According to the Commission, the new programmes should concentrate on three main priorities: increasing the competitiveness of regional economies, in order to create sustainable jobs; increasing employment and social cohesion, mainly through the upgrading of human resources; and urban and rural development in the context of a balanced European territory.[11] It is illustrative that, due to the considerable pressure from the Member States, the regulation is now expected to refer to broad, indicative guidelines.

Question 5: What are the implications for Member State administrations of the proposals for further decentralisation of the management structures?

Another important modification in the proposals is the call for significant modifications in the management responsibilities of the Structural Funds. In fact, a substantial decentralisation is envisaged whereby the Member States will become even more responsible for the implementation, but at the same time also accountable to the European Commission. Hence, the role of the Commission will be limited to strategic programming, ensuring respect for Community priorities and verifying the results through monitoring, evaluation and financial control.

This inevitably implies that the Member States and their administrations will have a greater role, but also more responsibilities in the actual day-to-day management of the Structural Funds. Some uncertainties remain regarding the future involvement of the Commission in the monitoring process. What are, for instance, the implications of limiting the role of the Commission in the monitoring committees to only an advisory one?

In any event, the proposed decentralisation implies that, in the development plans, the Member States will have to demonstrate that they possess the necessary administrative capacities to effectively manage the funds. The required administrative structures put in place to manage the Structural Funds vary considerably from one Member State to the other, whereas the structures also differ depending on under which objective a region is receiving EU funds. Thus, administrative capacity is, indeed, a rather vague concept. Due to the absence of any prescribed European model of management structures, administrative capacity is eventually measured by results. It is interesting to note that several Member States have adjusted their administrative structures on the basis of experience gained in managing Structural Funds. In that regard, there is a need for continuous evaluation of the effectiveness of the existing structures and where necessary for adjustments to be made.

Question 6: Will a Member State's record of fund implementation and absorption capacity in the current programming period be taken into consideration when allocating the funds?

The structural operations' budget in the current financial perspective is politically regarded as not only an expenditure ceiling but also as an expenditure target. In other words, for political reasons, the Member States agreed in 1992 that all measures would have to be taken to ensure that the funds made available were also being spent effectively by the respective Member States.

However, for various reasons, most Member States faced considerable difficulties in actually utilising the funds, at least in the initial phase of the current programming period. The legislation includes provisions on the so-called "automatic carry-over" of unused allocations of Structural Funds to the next budgetary year. It is important to note that for the next programming period, the Commission proposed abandoning this system of "automatic" carry-over. In the new programming period, commitments not used after two years would then be automatically de-committed. Therefore, there would be a greater incentive for the Member States to ensure that funds are effectively spent on schedule.

Under the current proposal, the utilisation rate of the Structural Funds in the current programming period (1994-1999) is formally not considered as a criterion for allocating funds for the next period. However, informally, it seems likely that the record of Member States in utilising the funds will be somehow taken into account. Indeed, a notable under-utilisation of funds may be due to inappropriate administrative structures within the Member State concerned. Although the actual allocation of Structural Funds is essentially the outcome of a sensitive political bargaining process between the Commission and the Member States, it is likely that some of the actors involved will, during these negotiations, closely watch the past implementation record of Member States. In particular, in the current political context, the Member States which are net contributors to the EU budget will ask for convincing evidence that the Structural Funds will be used in a more effective and efficient way. Therefore, it is preferable for Member States to provide sufficient information justifying their administrative capacities to manage Structural Funds and to implement the programmes efficiently. This should be done in the development plans, by presenting a clearly defined division of responsibilities, outlining the programme management structures and the administrative coordination mechanisms put in place, describing the roles and responsibilities of the various partners, outlining the monitoring and evaluation mechanisms, etc.

Question 7: Will the proposals on the performance reserve survive in the negotiations?

As mentioned above, the Commission initially proposed that 10% of Structural Fund resources would not be allocated to the Member States at the start of the programming period. Rather, on the basis of the mid-term evaluations, the Commission would decide before 31 March 2004 on the allocation of the resources in the performance reserve to the most efficient operational programmes or single programming documents. The following criteria would be used:

- quality of programming: is EU assistance achieving the initial targets?;
- administrative capacity: quality of management regarding monitoring and evaluation, project selection, financial control, etc.;
- rate of absorption of the funds;
- leverage effect: are efforts made to ensure a leverage effect (involvement of private capital).

During negotiations, Member States have declared their agreement, in principle, with the underlying motivation for setting up the reserve, i.e. to give incentives to increase the efficient use of the funds. However, there was general opposition to the proposed instrument. In fact, Member States expressed concern that the criteria do not specify how the Commission would precisely decide on the allocation of these reserves. Furthermore, the proposed 10% corresponds to a considerable amount in absolute terms (almost EUR 20 billion), i.e. the allocations for the performance reserve would be almost equal the total budget proposed for the Cohesion Fund. Hence, Member States were extremely reluctant to accept such provisions as they do not stipulate precisely how this significant budget would eventually be distributed among the Member States. Moreover, it is likely that the proposal would be politically very sensitive to implement. As a result, it remains uncertain whether the performance reserve provides a workable tool for enhancing effectiveness as it may prove difficult to apply it in practice.

Indeed, if the resources of the performance reserve are eventually allocated to the best performing programmes on the basis of objective and clearly defined criteria, the proposal seems useful. However, the fear is that the allocation would be done on a national pro-rata basis to "efficient" programmes, with the programmes that have encountered severe problems simply not receiving their share of the remaining 10%. Under this second scenario, the purpose and usefulness of the performance reserve is questionable, as the most efficiently performing programmes would not receive an additional allocation above their proportional share as a reward for their good performance.

Considering the fierce opposition of the Member States during the negotiations, the Commission produced a significantly amended proposal on the performance reserve. Under this scenario, the resources of the performance reserve would be equal to 10% of the commitment appropriations from the last three years of the programming period, 2004-2006 (i.e. around 4.3% of total appropriations). Moreover, the resources of the performance reserve would in fact become part of the overall indicative allocation of each Member State, thus becoming a reserve at Member State level. The resources would subsequently be allocated at mid-term by the Commission, but on the basis of a proposal of the respective Member State taking into account criteria relating to efficiency, management and financial performance. However, it seems that a compromise solution has eventually been found whereby the resources of the performance reserve will now be fixed at only 4% of the Structural Funds budget.[12]

Question 8: Will the partnership principle be extended?

Regarding the partnership principle, the Commission urged a broadening and deepening of its application. Therefore, all partners concerned should be closely involved in the entire policy cycle. This applies in particular to regional and local authorities, economic and social partners and other relevant organisations, notably bodies dealing with environmental protection and the promotion of equal opportunities for women and men. In this regard, the Commission proposed that the forthcoming development plans of the Member States would incorporate the opinions of these partners. As a consequence, their views would certainly have to be given more weight or importance. Simply ignoring the views expressed by partners would not be a feasible option for Member States.

During the negotiations, the Member States have objected to formally upgrading the role of the partners in the process. The December 1998 Council report on the Structural Fund reforms that was submitted to the Vienna European Council presented a watered down version of the involvement of the various partners in the programming and implementation phase. Though the outcome of the negotiations on this matter is not yet known, it seems likely that the final text will probably include a general reference to the partnership principle, leaving the actual degree of involvement of the different partners up to the respective Member States to work out.

However, from the experiences of several Member States, it seems that the involvement of partners can be extremely valuable. A key feature is that it can contribute to building a broad consensus on the development priorities contained in the development plan and/or the Community Support Framework or Single Programming Document, which will facilitate the subsequent implementation of the programmes.

Question 9: To what extent are Member States encouraged or obliged to attract private funding for Structural Fund programmes?

The overall Structural Funds' budget is – in relative terms – rather limited and there is virtually no scope to increase this budget in the next years. Therefore, in order to increase the impact of the Structural Fund programmes, there has been increasing focus on combining the Structural Funds with various other financial instruments. The latter can come from European sources, such as loans from the European Investment Bank or from Member State sources. Moreover, the Commission encourages public-private partnerships in the financing of large infrastructure projects.

In principle, the Community funds should primarily be used for those projects that would not have been undertaken in the absence of the EU funds. It is in this regard that the Commission proposals for the new programming period envisage that the co-financing rates for the Structural Funds should be somewhat adjusted. In general, the financial contribution of the Structural Funds is limited to 75%, maximum, of the total eligible costs and at least 50% of eligible public expenditure for support in Objective 1 regions. However, for those regions located in Member States that are eligible for Cohesion Fund support, the Community contribution can be 80% of total eligible costs, at most. The EU contribution may rise to a maximum of 85% of the total eligible costs for the outermost regions and the outlying Greek islands.

Regarding measures under Objective 2 and 3 programmes, the Community contribution can be, at most, 50% of total eligible costs and at least 25% of eligible public expenditure.

However, the Commission proposed that the rates of assistance be differentiated, taking into account:

- the gravity of the problems concerned, in particular problems of a regional or social nature;
- the economic and financial capacity of the Member State concerned, and the need to avoid excessive increases in budget expenditure;
- the optimum utilisation of financial resources in financing plans, including the combination of public and private resources, and the use made of appropriate financial instruments.

In the case of projects generating "substantial revenues", the Commission proposed that the Community contribution should be restricted. The concept of "substantial revenues" has been indicatively defined by the Commission as net receipts equivalent to at least 25% of the total cost of the investment concerned.

In those cases, the contribution would be determined by taking into account the "intrinsic characteristics", including the size of the gross self-financing margin expected. Under the proposals, Structural Fund assistance would be limited:

(a) in cases where investments in infrastructure generate substantial revenue to 40% of the total eligible cost for Objective 1 regions, and to at most 50% in the case of the Objective 1 regions located in Member States benefiting from the Cohesion Fund;
(b) in the case of investment in firms to 35% of the total eligible cost for Objective 1 regions. This may be increased to 45% at most in the case of investments in small and medium-sized enterprises.

Reactions in the Council have shown that so far some Member States favour greater recourse to private financing. Other countries have expressed doubts about the way the multiplier effect on the mobilisation of public and private resources would function. The issue will be further discussed and therefore the outcome remains uncertain at this moment.

In any event, the trend of the reforms in this matter seems fairly obvious. The Commission was seeking ways to reinforce the leverage of structural assistance by using various forms of assistance. It seems, therefore, that the Member States are strongly encouraged to demonstrate that adequate arrangements are being made in their development plans to ensure "more developed financial engineering".

Question 10: What support will be given to the prospective new Member States for their integration into the Structural Fund programmes?

As of 2000 onwards, an annual budget of EUR 1 billion will be available for measures under the new Instrument for Structural Policies for Pre-Accession (ISPA). For the time being, only the applicant countries of Central and Eastern Europe will be eligible for support from ISPA. The draft ISPA regulation stipulates that the Commission will make an indicative breakdown of the assistance between the beneficiary countries taking into account their population, per capita GDP and surface area.

In its proposals for the EU's pre-accession assistance, the Commission stressed the need to gradually decentralise the management of this assistance to the applicant countries themselves. Hence, a major feature of pre-accession aid is likely to be the opportunity it provides to gradually build up experience in managing such EU programmes as an essential learning exercise in preparation for more substantial Structural Fund programmes later on.

However, this proposed decentralisation is conditional as it is subject to certain minimum criteria and conditions. Indeed, the management of pre-accession assistance will only be conferred to implementing agencies in the applicant countries if these agencies can demonstrate that they have the necessary administrative capacities. In this regard, the Commission will apply the following minimum criteria:

- the implementing agencies should have a well-defined system for managing the funds with full internal rules of procedure, and clearly stated institutional and personal responsibilities;
- there must be a separation of powers so that there is no conflict of interest in procurement and payment;
- adequate personnel must be available which must have suitable auditing skills and experience in implementing EU programmes.

In addition, the Commission will apply certain minimum conditions for decentralising management to agencies in the applicant countries, e.g.:

- the implementing agency must have an effective internal control system;
- there must be a reliable national financial control system over the implementing agency;
- EC procurement rules must be respected.

A major shortcoming of the ISPA assistance is that it will only provide support for projects in the area of environment and transport infrastructure. Hence, the eligible measures are restricted to two sectors only. More importantly, the support will be given to projects, not programmes, the latter constituting the key feature on which Structural Fund support is based.

In any event, the above mentioned minimum criteria and conditions are a very clear indication that the new Member States (like the current ones) will have to demonstrate that they have the necessary administrative capacities to manage EU assistance. Though this is likely to require major and additional changes in the applicant countries, the pressure exerted by the EU might also become a facilitator to undertake these reforms. As such, the preparations for the EU Structural Funds may help to modernise the public administrations in the applicant countries.

Conclusion: When should the reforms of the Structural Funds be called successful?

It will still take a lot of heated political debates before the on-going negotiations on the reform of the Structural Funds are brought to a satisfactory conclusion. The Commission proposals seem to a significant extent to have anticipated possible fierce opposition from the Member States concerning the reforms. In particular the proposed phasing-out arrangements are fairly generous as they allow those disqualifying regions to continue receiving support at least partly and temporarily. Although there are some strong arguments for choosing such a gradual approach, this particular element of the proposals is also a perfect illustration of the various political interests that dominate the negotiations and that will shape the outlook of the final compromise. If the reforms are to become successful, it appears that at least some improvements have to be made in the current proposals:

A. Considering the tight budgetary context, it is even more important that the Structural Funds should be effectively more concentrated on the most important and pressing problems. The funds should be allocated to the Member States on the basis of objective criteria, which have to be strictly applied in practice. There should be a significant reduction in the population coverage as a way of increasing the overall effectiveness of the cohesion policy.

B. Member States should be further encouraged to manage the Structural Funds more effectively. The proposed decentralisation of management responsibilities seems a step in the right direction, though it leaves certain questions unanswered. The performance reserve may not constitute a workable tool for increasing the effectiveness, as it might be politically too difficult to apply.

C. Finally, was Agenda 2000 not supposed to prepare the Union for the enlargement? Indeed, the necessary preparations should be made for the gradual integration of the new Member States into the cohesion policy. The proposed budget for the new members may appear fairly modest for now and in contradiction with their relatively low-income levels compared with the EU average. However, it may also not be desirable at this stage to give significant budget allocations to the applicant countries (or new Member States) before they have given proof that they have the necessary administrative capacities to manage the funds. Present Member States should, however, already demonstrate that the cohesion objectives of the Treaty will apply equally to the new Member States. Maintaining or even strengthening the economic and social cohesion within the enlarged EU will be a major challenge. It is unclear to what extent the current reforms actually address this matter, as they seem primarily to concern an internal EU-15 discussion on how to divide the Structural Funds' cake.

RÉSUMÉ

Dans le cadre du paquet de mesures prévues par l'Agenda 2000, les fonds structurels de l'UE traversent actuellement un processus de réforme qui vise à en accroître l'efficacité et à préparer la voie à une intégration progressive des futurs Etats membres de l'UE dans la politique structurelle. Les négociations se caractérisent notamment par le fait que les perspectives d'un accroissement budgétaire des fonds sont actuellement pour ainsi dire inexistantes. Dès lors, il convient de négocier les réformes en tenant compte de sévères restrictions budgétaires.

Etant donné les ressources limitées et l'augmentation prévue du nombre de bénéficiaires potentiels des fonds structurels à la suite de l'adhésion des futurs Etats membres, il est essentiel que les réformes actuelles garantissent une plus grande concentration des fonds structurels dans la prochaine période de programmation. A défaut, l'efficacité des fonds restera relativement limitée.

A cet égard, la Commission européenne a proposé de réduire le nombre d'objectifs prioritaires et d'initiatives communautaires. Par ailleurs, la couverture des fonds structurels devrait être réduite progressivement à 35-40% de la population totale de l'Union. Cependant, au cours des négociations au Conseil, la principale pomme de discorde entre les Etats membres portait sur le budget global qui sera affecté aux fonds structurels pour la période 2000-2006, sur la répartition de ces fonds par Etat membre et par objectif, et sur quelques-unes des modifications proposées aux procédures de programmation et de gestion.

Lors du Conseil européen de Cardiff, en juin 1998, le délai politique pour la conclusion des réformes de l'Agenda 2000 fut fixé à mars 1999. Compte tenu de la complexité des questions traitées et la multiplicité des acteurs impliqués, il demeure extrêmement difficile de prédire l'issue des négociations. Néanmoins, en se penchant sur 10 questions soulevées par les réformes des fonds structurels, cet article s'emploie à esquisser les implications probables pour la mise en oeuvre des fonds structurels au cours de la prochaine période de programmation qui va de 2000 à 2006.

NOTES

[1] I would very much like to thank Phedon Nicolaides and Sanoussi Bilal for their useful comments on an earlier version of this paper.

[2] There are four Structural Funds, i.e. the European Regional Development Fund (ERDF); the European Social Fund (ESF); the European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF-Guidance); and the Financial Instrument for Fisheries Guidance (FIFG).

[3] In the EU's financial perspective, heading 2 refers to "structural operations", including the EU Structural Funds, the Cohesion Fund, the EEA financing mechanism, etc.

[4] cf. Council Regulation (EEC) No 2081/93 of 20 July 1993 (framework regulation); Council Regulation (EEC) 2082/93 (coordination regulation); Council Regulation (EEC) 2083/93 (ERDF); Council Regulation (EEC) No 2084/93 (ESF); Council Regulation (EEC) No 28085/93 (EAGGF-Guidance); Council Regulation (EEC) No 2080/93 (FIFG). All published in the Official Journal of the European Communities, No L 193 of 31 July 1993.

[5] Objective 6 was added in 1995 according to the relevant provisions in the Acts of Accession of Finland and Sweden.

[6] For the time being, ISPA support would only be available to the 10 applicant Central and Eastern European countries, and not (yet) to Cyprus.

[7] cf. EUROSTAT, *Statistics in Focus – General Statistics*. No. 1/99. The Irish Government announced in November 1998 that the country will in future be sub-divided into two regions. In early February 1999, the government decided to establish two new "group regional authorities" that will amongst other things be responsible for managing the regional programmes in Ireland's next Community Support Framework. It is anticipated that one part of Ireland will remain eligible for Objective 1 support, whereas the other will benefit from the envisaged phasing-out assistance.

[8] Wishlade, Fiona (1999) "Competition Policy, Cohesion and Coherence? Member State Regional Policies and the New Regional Aid Guidelines", in Bilal, Sanoussi, and Phedon Nicolaides (eds.) *Understanding State Aid Policy in the European Community: Perspectives on Rules and Practices*, Chapter 10, published by Kluwer Law International for the European Institute of Public Administration. (forthcoming).

[9] The main reason why the March 1999 deadline was set was to conclude the Agenda 2000 negotiations with the current European Parliament, anticipating the European elections that are to be held in June 1999.

[10] Cf. Official Journal C 323/40 of 21 October 1998.

[11] European Commission, *The Structural Funds and their co-ordination with the cohesion fund. Draft guidance for programmes in the period 2000-2006*, Working paper, 3 February 1999.

[12] Agence Europe, 25 January 1999, p. 7. ❑