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**FACTORS INFLUENCING THE SPENDING
OF STRUCTURAL FUNDS MONEY**

EXECUTIVE SUMMARY

**CHAPTERS 4-5 - DEBATES - CONCLUSIONS
RECOMMENDATIONS**

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4. FACTORS INFLUENCING THE FINANCIAL IMPLEMENTATION OF STRUCTURAL FUND APPROPRIATIONS

In what follows some of the **factors**²⁷⁶ underlying the implementation of appropriations will be discussed. This will include analysis of characteristics that are typical throughout Europe. The approach arguably results in a somewhat abstract treatment of case-study results, but it also offers a new perspective on the phenomenon of insufficient implementation of appropriations.

4.1. The influence of economic framework conditions and of regional competitiveness on implementation of appropriations

At present **economic and economic-policy framework conditions generally** within the European Union are distinguished by a monetary policy geared to price stability, depressed growth of prices and wages and important measures to consolidate public finances in the run-up to securing EMU convergence criteria? These developments can strongly influence the implementation of assistance-project appropriations. For in the event of cost-cutting measures or an economic downturn, it is private investment in assistance projects that will tend to be the first to be cut back, which will in turn result in **insufficient** implementation of appropriations owing to the falloff in co-financing. Even so, no direct impact of these Europe-wide developments on the implementation of appropriations could be identified in the **instances** investigated under the terms set by the case studies. Rather, it can be assumed that a stronger influence is exerted on implementation by regional factors. These, as the cohesion report determines, exist predominantly in the form of regional disparities in employment, unemployment and **incomes**²⁷⁸.

In order to analyse the relationship between regional disparities and implementation of appropriations in the context of the present study, the influence of regional competitiveness on implementation must be considered. For the purpose of **determining regional competitiveness**, Biehl's infrastructure indicator, calculated at the NUTS II level, will be invoked. It will be assumed that public-sector investment in infrastructure is a factor fundamental to promoting economic growth. **Thus**, there exist close connections between public infrastructure capital stock and regional disparities in incomes, employment, regional production capacity and productivity. The overall infrastructure indicator is here composed of the main groupings of transport, telecommunications, energy and education. The nature of the data was such that a selection was made on the basis of **production**²⁷⁹.

²⁷⁶ In general, there are a range of other important factors influencing the relative speed of appropriations which have not been taken into account here:

- the relative importance of large multi-annual projects over annual projects in different programmes;
- rules on retrospective payments in different Member States;
- currency movements;
- new Objective designations for some regions and increased workloads on Member States;
- the fact that SPDs (DOCUPs) require more detail at the outset, compared with the CSF and Operational Programme structure, and hence more time is required for the initial planning phase.

²⁷⁷ COM (97) 169 final - Progress report on the implementation of the 1996 Broad Economic Policy Guidelines, p. 1.

²⁷⁸ European Commission: First Report on Economic and Social Cohesion, Luxembourg, 1996, pp. 17 ff.

²⁷⁹ Dieter Biehl 'Infrastruktur als Bestimmungsfaktor regionaler Entwicklungspotentiale in der Europäischen Union' (*Infrastructure as a determining factor for regional development potential in the European Union*), in: Henrichsmeyer, W and Karl, H. (eds.), *Regionale Entwicklung im Prozeß der Europäischen Integration (Regional development in the process of European integration)*, Bonner Schriften zur Integration Europas (Bonn papers on the integration of Europe), Vol. 4, pp. 53-86. A more comprehensive treatment could be expected also to cover the reports on health and social welfare care, sport and tourism, cultural institutions, and special urban and regional infrastructural indicators. It should be realized that in the account that follows, the infrastructural indicators (NUTS II) had to be aggregated to the levels for which the corresponding data for commitments and payments were available.

The regions falling within the terms of **this** study display a profoundly heterogeneous picture in terms of their economic situation. A first approach to defining regional competitiveness leads to the identification of three distinct groupings²⁸⁰:

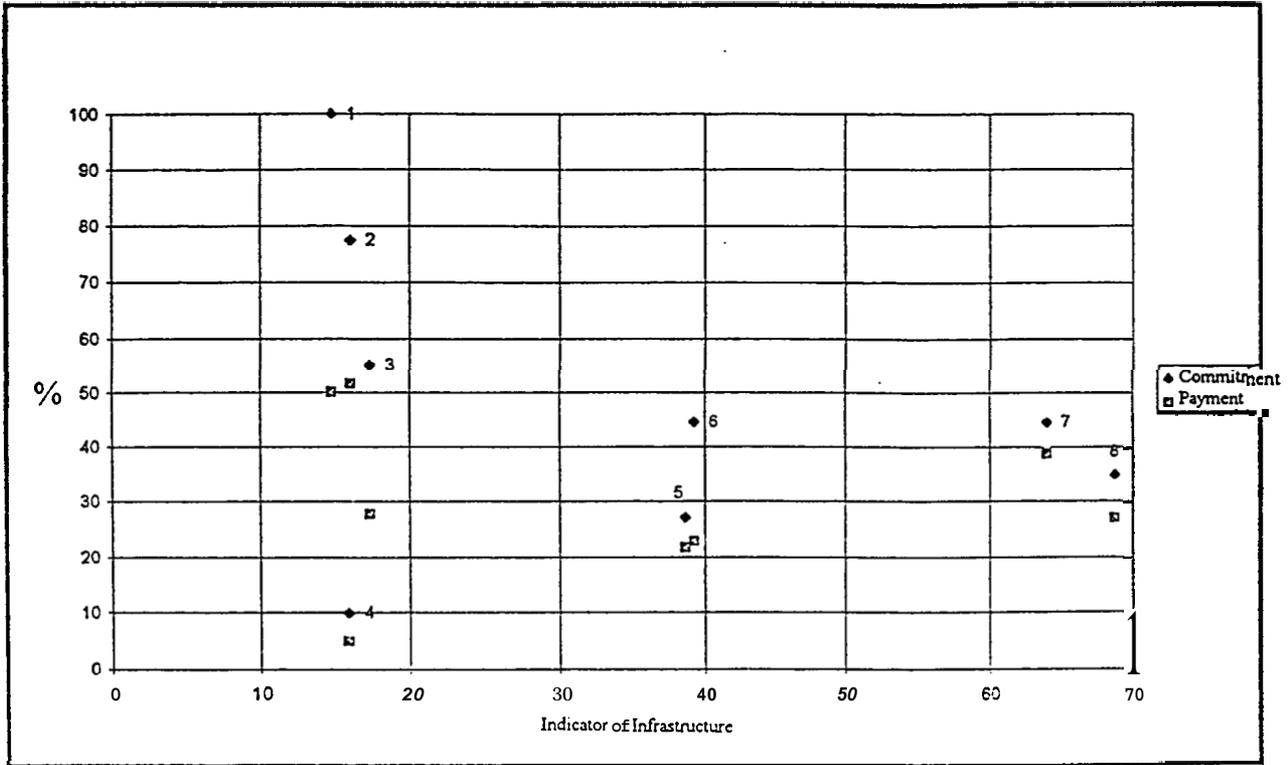
- Low competitiveness is displayed by the Objective 1 regions of *Abruzzi, Valencia, Castillay Leon* and *Campania*, the Objective 2 regions of *Navarra* (also included in the 5b-regions), *Aragon, Liege* and *GreaterManchester*, as well as *La Rioja* (Objective 5b);
- Medium competitiveness can be recorded in the French Region of *Avesnes/Douai/Valenciennes*, the Belgian region of *Hainaut* and the Objective 2 regions of *Tumhout* and *Rhineland-Palatinate*;
- **High** competitiveness characterizes the Objective 1 regions of *Saxony* and *Brandenburg*, and the Objective 2 region of *North Rhine-Westphalia* and the Objective 5-regions of *Centre, Auvergne, Borders* and *Midland Uplands*.

Under the terms of the investigation the following **hypothesis is to be tested**: regions with a low infrastructure indicator or a low regional competitiveness have greater need of assistance and consequently absorb more appropriations. On the other hand, regions with higher competitiveness typically display lower absorption capacity because need and demand are lower.

There follows the analysis of the **connection between regional competitiveness** and implementation of appropriations. The graph below plots commitment and payment rates in Objective 1 regions against the infrastructure indicator. As Figure 5 makes explicit, low competitiveness in the case of the regions of *Abruzzi, Valencia, Castillay Leon*, results in higher rates of implementation of ERDF appropriations. In the case of *Valencia* in particular, it must be assumed that the region's strong economic dynamism, which does not feature in this representation, leads to a strong demand for assistance appropriations. By contrast, regions with high competitiveness (*Saxony, Brandenburg*) display below-average values. The continuing transformation crisis is here clearly making itself felt in the form of average or below-average implementation of appropriations. One exception is the ERDF utilization rate in the *Campania* region, which although a region of high need, nevertheless records low implementation.

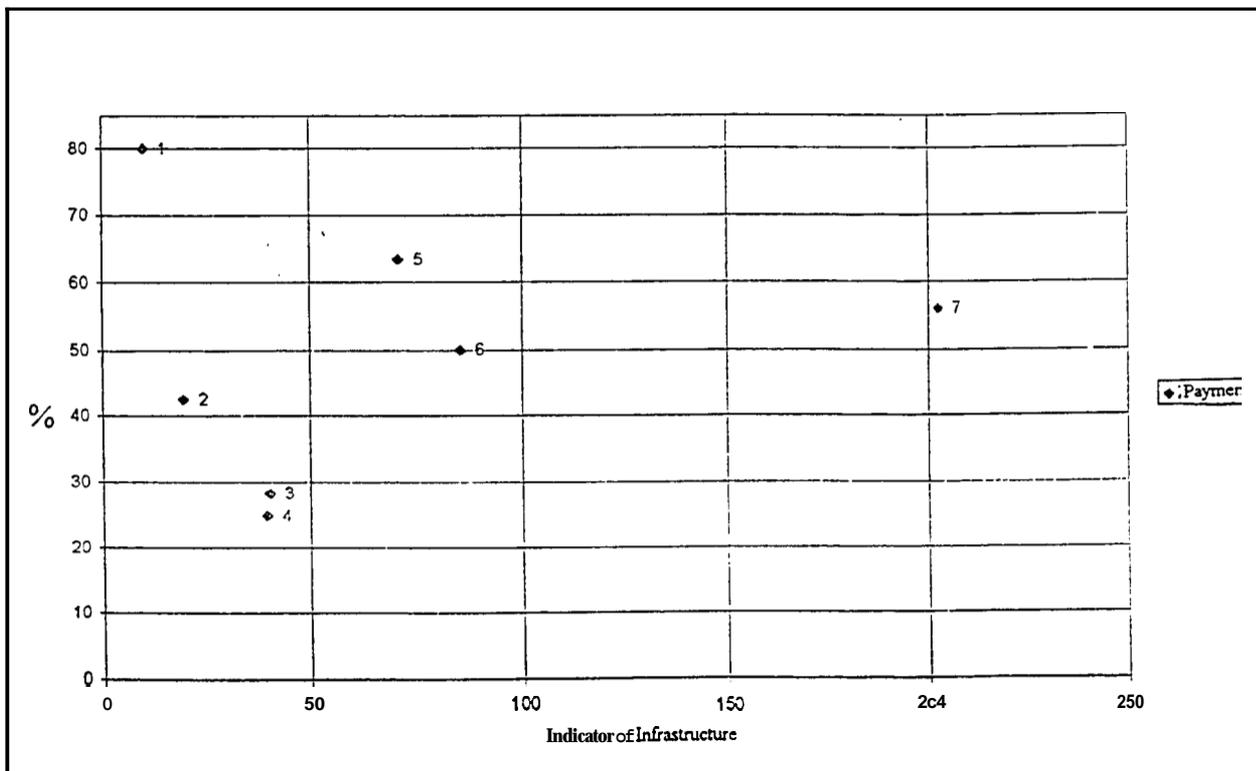
²⁸⁰ Compared with regions in the same category of objectives. See chapter 4.1.2.

Figure 5: Regional competitiveness and implementation in Objective 1 regions'



1) Regions: 1. Abruzzi, 2. Valencia, 3. Castilla y León, 4. Campania, 5. Hainaut, 6. Avesnes/ Douai/Valenciennes, 7. Saxony, 8. Brandenburg. Source: Own calculations, plus Biehl. op. cit., pp. 53-86.

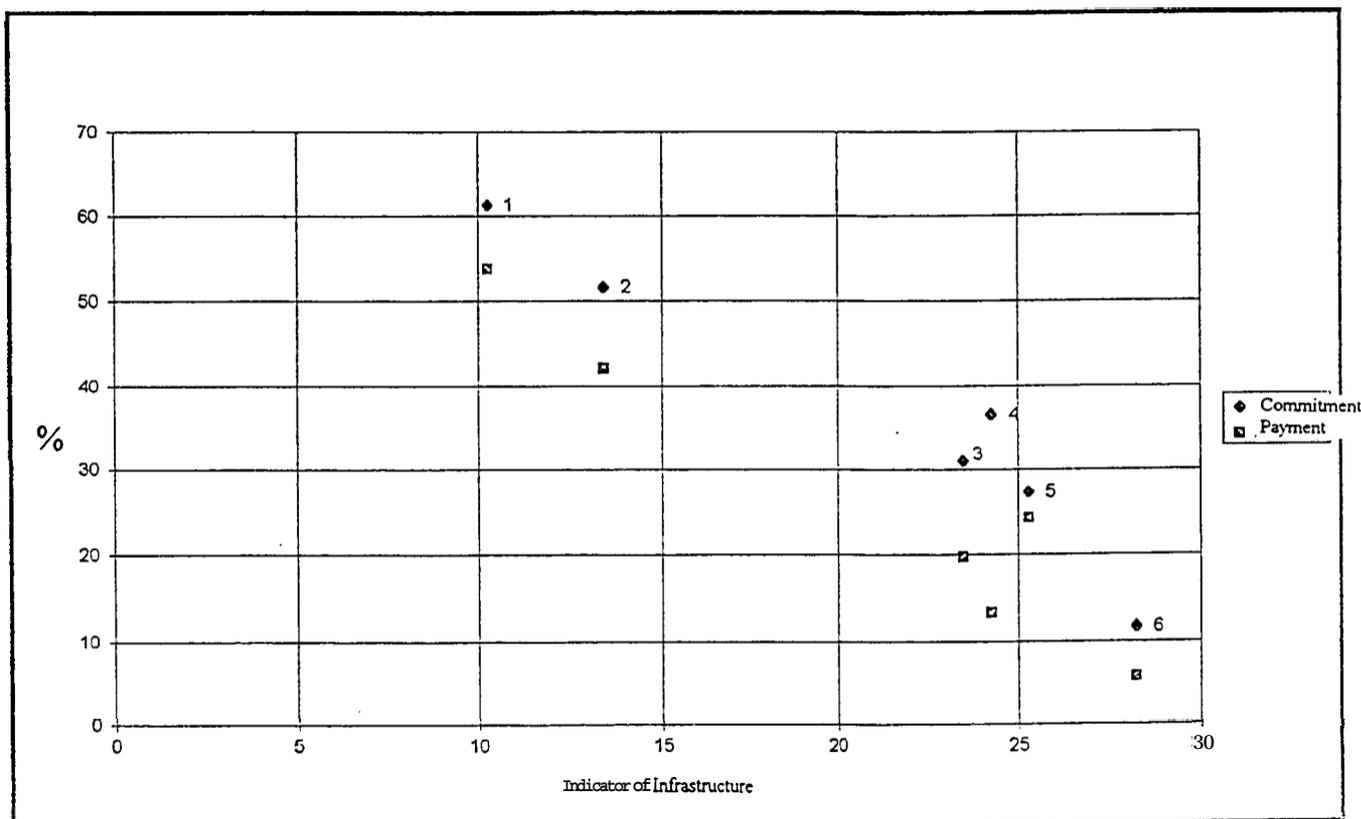
Figure 6: Regional competitiveness and implementation in Objective 2 regions'



) Regions: 1. Navarra, 2. Aragón, 3. Liège, 4. Greater Manchester, 5. Turnhout, 6. Rhineland Palatinate, 7. NRW. In the case of Objective 2 Regions, only the payment rate was included in the calculations. Source: Own calculations, plus Biehl, op. cit., pp. 52-86

As Figure 6, on the situation in the Objective 2 regions makes clear, high regional competitiveness in *North Rhine-Westphalia, Rhineland-Palatinate* and *Turnhout* determines an above-average utilization of the **ERDF**, and in regions with low competitiveness a below-average **ERDF** implementation (*Liège, Greater Manchester*). In the latter case, additional crisis phenomena²⁸¹ are to be noted, phenomena that have a marked negative impact on implementation of **ERDF** appropriations.. In regions of **high** competitiveness the different crisis phenomena (conversion, coal and steel sector) are shown as still having no strong impact on implementation of appropriations. What also clearly emerges in this representation is the enormously below-average standard of infrastructural facilities available to the Spanish Objective 2 programmes, specifically taken into account in the course of programming with the orientation to infrastructural measures.

Figure 7: Regional competitiveness and implementation in Objective 5b Regions'



1) Regions: 1. Navarra, 2. La Rioja, 4. Auvergne, 5. Centre, 6. Borders, 7. Midland Uplands.
Source: Own calculations, plus Biehl, op. cit., pp 53-86.

The results of the analysis of the connection in the Objective 5b regions lends support in the first instance to the hypothesis that assumes a high absorption rate caused by a high level of need.

The investigation into the influence of regional competitiveness on the implementation of appropriations has succeeded in identifying certain connections. It shows for example that low competitiveness in Objective 1 and Objective 5b regions tends to affect implementation of appropriations favourably and high competitiveness unfavourably. Conversely, the opposite connection tends to prevail in the Objective 2 regions.

²⁸¹ European Policy Research Centre, op. cit., p. 98

In accordance with the fundamental considerations²⁸² on the significance of infrastructure, it can in conclusion be ascertained that although this constitutes a necessary condition for explaining the implementation of ERDF appropriations, it is by no means a sufficient one. The investigations into the dynamics of Valencia's economic development for example revealed that it was not just the levels of public-sector net capital stock - here represented by the infrastructure indicator - but rather also private investments that tended to underpin the dynamic economic effects, thereby imparting a significant impetus to the implementation of appropriations. In other words, a high rate of implementation of appropriations can only be achieved in those regions in which an optimum combination of investment in 'public' and 'private' capital stocks has also been secured as a programming feature²⁸³.

On the other hand, an assistance policy that failed to take this connection into account could result in insufficient implementation of appropriations, leading ultimately to a distorted capital-stock structure. It can be assumed that these theoretical considerations are what underlie the Commission's strategy of working by means of partnership programming to promote private investment more vigorously in many cases. As well as harmonizing capital-stock structures, this also enables the job-creating impact of Fund assistance to be enhanced.

If recognition of this aspect is worked into the analysis, it can arguably be concluded that a **form** of ERDF assistance distorted in favour of the public-sector capital stock (here represented by the infrastructure indicator) in the regions of *Saxony, Brandenburg, Liege, Greater Manchester* and *Midland Uplands* could have led to inadequate implementation of appropriations. Conversely, ERDF assistance projects more strongly geared to private-sector capital stocks²⁸⁴ in the regions of *Abruzzi, Valencia, Navarra* and *La Rioja* may well have been responsible for above-average implementation²⁸⁵.

4.2. The influence of national regional policies and government budgetary policy on implementation of appropriations

Since the greater part of EU assistance projects are executed as part of national strategies, the effects generated by **trends in national regional policies** on the implementation of appropriations are of fundamental importance in terms of their financial and planning impact. By way of example, the explanation of this connection in what follows will draw on relevant developments in Germany and the United Kingdom.

An orientation of ERDF assistance projects to local *Land* economic development programmes or to the Joint Programme (**GA**) has already been demonstrated in the *North Rhine-Westphalia* and *Rhineland-Palatinate* case studies. In the case of the eastern German federal *Länder*, the direct linkage of ERDF appropriations with the national regional policy mechanism (**GA**) enabled a strong orientation to national regional policy, and with it a restriction of the scope of ERDF assistance, to

²⁸² Eleonore Irmen and Antonia Blach: 'Infrastrukturdefizite in den neuen Ländern', in: *Regionalbarometer neue Länder. Zweiter zusammenfassender Bericht (Infrastructural deficits in the new Länder - Second summary report)*, German federal research institute for regional studies and regional planning (eds.), *Materialien zur Raumentwicklung, (papers on regional development)*, issue 69, Bonn, 1995, pp. 105-113.

²⁸³ Biehl, op. cit., p. 61.

²⁸⁴ High private capital stocks, low public capital stocks; expressed here as an infrastructural indicator.

²⁸⁵ This line of argument will not be pursued further here, since it would require a fine line of demarcation to be drawn between entrepreneurial and public-sector implementation, which would exceed the bounds of the present study.

be identified. Above all, the **regional-policy emphasis on equalization in the new Lander had a negative impact on implementation of appropriations.**

Regional assistance in the *United Kingdom* is based on Regional Selective Assistance (**RSA**), the Single Regeneration Budget (SRB), introduced in 1994 and consolidating a variety of existing assistance options, and the Regional Challenge (applicable to England and Wales) programmes²⁸⁶. **Since** the assistance is financed by ERDF appropriations, the offers submitted for Regional Challenge must relate to Objective 1, Objective 2 and Objective 5b areas²⁸⁷. The government at present receives 12% of ERDF appropriations to finance the Regional Challenge programme²⁸⁸. Decisions on specific assistance operations are taken at ministerial level²⁸⁹. **This** requires an approach relying on competition between the local authorities²⁹⁰, albeit one lacking in **transparency**²⁹¹. With the growth in state control and the centralist structuring of regional assistance, the regional vacuum soon became apparent. Those aspects of English regional assistance are responsible for a below-optimum rate of implementation of appropriations. The exception in the *United Kingdom* is Scotland, typical of which, by contrast with the situation in England, is decentralized regional policy and consequently the ability to take local needs more effectively into account.

A further consequence of the policy features described is the trend in national regional policy expenditure. Figure 8 highlights the trend in regional policy expenditure from 1989 to 1993²⁹².

²⁸⁶ House of Commons: Trade and Industry Committee, Fourth Report, Regional Policy, March 1995, p. x.

²⁸⁷ Government Office For The North West, Regional Challenge Information Pack, paragraph 19 and Annex F. The English 5b Regions under investigation are not affected by the "challenge procedure".

²⁸⁸ European Parliament: Report on development problems and structural interventions in the United Kingdom, 4. March 1997 (PE 219.996), p. 16.

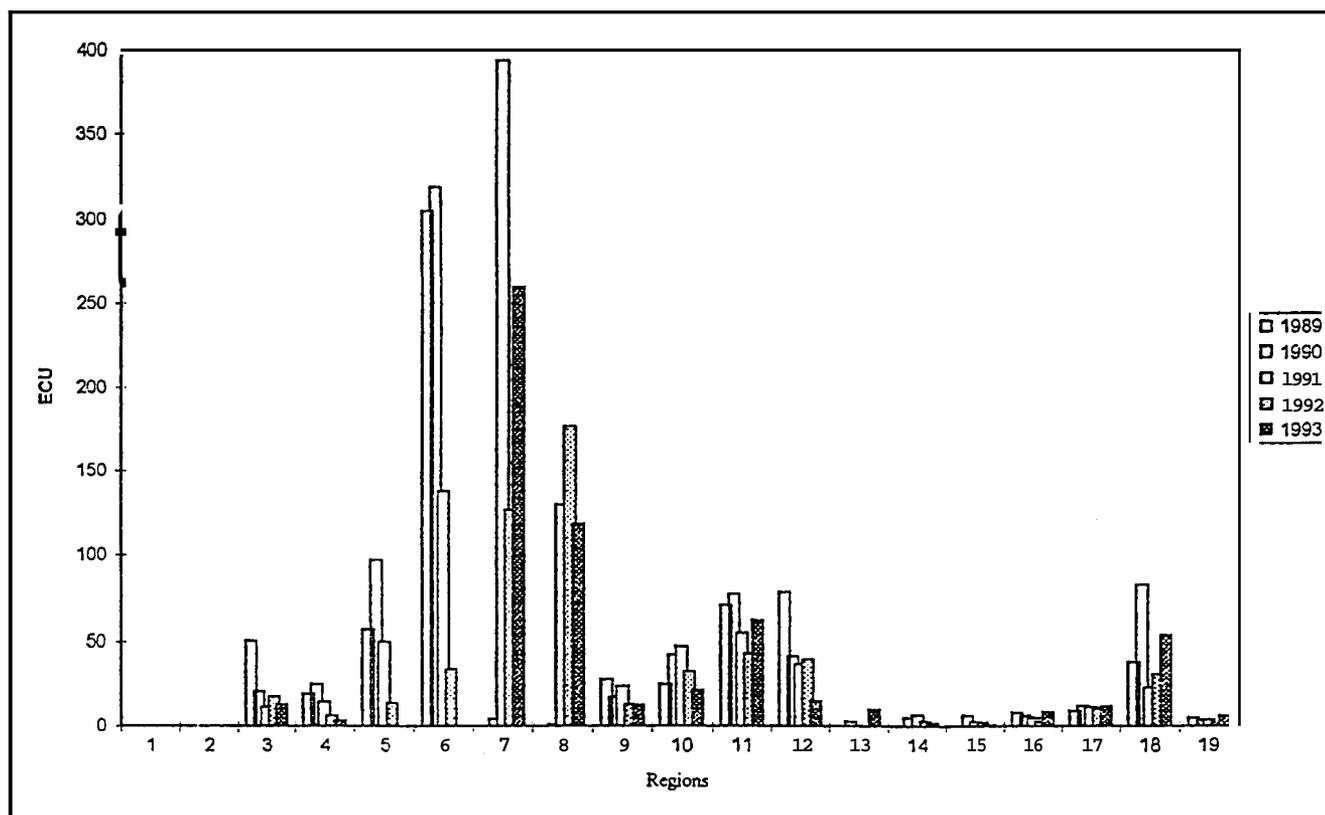
²⁸⁹ Government Office For The North West, Regional Challenge Information Pack, paragraph 21.

²⁹⁰ North West Partnership: *Sustainable Regional Economic Strategy for North West England*, 1996, p 6; also available: *City Challenge and Rural Challenge*.

²⁹¹ North West Partnership: *Sustainable Regional Economic Strategy*, p. 6; also European Parliament, *op. cit.*, p. 16.

²⁹² **Owing** to the **limited** period covered by this account (1989-93), the information it contains are of only limited relevance to the period **1994-96**.

Figure 8: National regional policy per-capita expenditure in the case studies' 1989-1993



- 1) In ECUm (at 1993 prices). Regions: 1. Navarra, 2. La Rioja, 3. Castilla y León, 4. Valencia, 5. Campania, 6. Abruzzi, 7. Brandenburg, 8. Saxony, 9. NRW, 10. Rhineland-Palatinate, 11. Flanders (Turnhout), 12. Wallonia (Hainaut, Liège), 13. Centre, 14. Nord-Pas-de-Calais (Avesnes/Douai/Valenciennes), 15. Auvergne, 16. West Midlands, 17. North West, 18. Scotland, 19. Midland Uplands (average values for West and East Midlands).

Source: European Policy Research Centre: Economic and Social Cohesion in the European Union; The Impact of Member States' own Policies, Final Report to the European Commission (DG XVI), October 1996.

Figure 8 highlights how disparate national and regional support to EU assistance areas can be. Common to almost all regions is the fact that assistance was discontinued or reduced in the period to 1993. It must be assumed that implementation of appropriations has been strongly influenced by that trend, in that EU assistance projects are of growing importance and are often seen as the core financing mechanism. This trend ought consequently to have a favourable impact on implementation of appropriations. Theoretically, this connection can be made for the regions of *Nmarra*, *La Rioja*, *Valencia*, and *Abruzzi*. By contrast however, some regions with low levels of national support can also display inadequate implementation of appropriations (*Campania*, *Nord-Pas-de-Calais*, *Midland Uplands*).

In conclusion, it can be noted that the influence of national regional policies on the implementation of ERDF appropriations can vary widely²⁹³. In the subsequent analysis of explanatory factors for the inadequate implementation of appropriations, this aspect must not be lost sight of. In that connection tensions can arise in the relationship between national budgetary policy, the need to comply with the

²⁹³ Any more searching analysis of this aspect would have to include additional aspects such as the redistribution effect of other policies. See European Commission: First Report on Economic and Social Cohesion, and European Policy Research Centre: Economic and Social Cohesion in the European Union, The Impact of Member States own Policies, Final Report to the European Commission (DG XVI), October 1996, pp. 116 ff.

subsidiarity principle and the implementation of appropriations. If national regional policy measures are curtailed, then the strong interweave between national and European assistance projects means that the co-financing of the EU programmes is also jeopardized. For the necessary co-financing appropriations not to be released and the EU assistance operations nevertheless to be carried out amounts to an infringement of the **additionality principle**²⁹⁴, since in such cases EU assistance replaces national regional policy expenditure. There is moreover the fundamental problem in calculating additionality that the factors noted as exerting an influence have to be included in the calculations at the annual review, when they can often make for changes to the additionality tables during an assistance period and can ultimately give rise to a form of 'phantom accounting'²⁹⁵.

Such is the political sensitivity of this aspect that no specific data on additionality were available to us. Only in respect of *North Rhine-Westphalia*, *Saxony* and *Brandenburg* were data available that provided a breakdown of appropriations by providers of co-financing, which do not at all events allow of any direct conclusions concerning conflicts with the additionality principle. For Italy it can be assumed, on the strength of the agreement between the EU Commission and central government on guaranteeing additionality, that problems existed in that connection. And Britain in particular has been heavily criticized in the past for using Structural Fund appropriations simply to refinance its own policies²⁹⁶.

In particular, the potential for conflict in relations between dwindling co-financing appropriations and implementation came to feature centre-stage in the study as the enormous problems with securing the release of national **co-financing appropriations** became apparent. If the necessary national co-financing appropriations cannot be found, the operations concerned have to be delayed or discontinued, resulting in insufficient implementation of appropriations. In that connection the financial dependence of the regions of *Aragon* and *La Rioja* on central government (in relation to EAGGF assistance projects) clearly had a negative impact, since by suspending its share of co-financing the government jeopardized the assistance projects in whole or in part.

The conclusion must be that it is of fundamental advantage for the regions to be able to contribute directly to co-financing on the strength of their financial autonomy. The advantage of firm co-financing was clearly demonstrated in the cases of *Flanders (Turnhout)*, *Navarra*, and *North Rhine-Westphalia*. The rates of implementation achieved are here predominantly well above the European average. That financial autonomy represents a necessary but not a sufficient condition is demonstrated by the regions of *Wallonia (Liège, Hainaut)*, and *Rhineland-Palatinate*, where insufficient rates of implementation were recorded even although these regions enjoy extensive financial powers. A further problem is that posed by the overlapping of the national or regional financial year with that of the Community. Where the case studies are concerned, however, it was only in the *Aragon* region that any adverse impact on the implementation of appropriations owing to incompatible budgetary planning periods could be identified, caused in this case by the delay in adopting the regional budget.

In reaction to problems with securing co-financing, some states have introduced special **safeguard mechanisms**. In *North Rhine-Westphalia* these take the form of anchoring revenue and expenditure items for ERDF and co-financing appropriations in the Land budget. In eastern Germany some

²⁹⁴ The additionality principle applicable to EU assistance projects states that the annual average of national state contributions must be maintained at least at the same level from one programming period to the next (Coordination Regulation, Article 9(2)(d)).

²⁹⁵ See contribution by Peter Witt to Cohesion Forum Workshop L. For a critical analysis, see also: 'Improving the Management of European Regional Development Policy', Final Report of the EUROMANAGERS Programme, 1996, p. 10.

²⁹⁶ Wiedmann op. cit., pp. 91 ff.

regions have opted for a return to linking the **ERDF** appropriations to the Joint Programme (**GA**), whereby not only the *Land*, the local authorities and the private sector contribute to the co-financing appropriations, but so too does the federal government. A new source of co-financing in the United Kingdom is now being provided by the National Lottery. Lottery profits were originally intended exclusively for such areas as culture, sport and good causes. Owing to the enormous lack of co-financing appropriations however, they are now being used to co-finance economic activities under Objective **2** programmes. Attention should in particular be drawn to the French state and region planning contracts, valid for the whole national territory, which, by extending over a multiannual period (1994 to 1998), both regulate state financial allocations to the regions and ensure co-financing for EU assistance projects.

In conclusion, attention should be drawn to the rather fundamental problem of tension in the relationship between annual **Community** budget planning and multiannual programme implementation, a problem that is not solved with the system of 'differentiated appropriations'. The accumulation of undischarged payment and commitment appropriations has always led to frantic attempts to commit appropriations at the end of a programming stage. It is doubtful if commitments of appropriations at the end of a stage can comply with the quality standards set by Community programming. That assumption could not however be confirmed on the basis of the case studies.

4.3. The philosophy underlying Structural Fund assistance

4.3.1. Programming

The programming approach to Fund assistance projects can be considered as fundamentally a highly ambitious procedure, one that by its very nature tends to complexity. In particular, **programme quality** and **approval procedures** exert a fundamental influence on the implementation of assistance-project appropriations. Crucially important in terms of programme quality is the extent to which regional-policy performers are involved in planning. For only comprehensive participation at local and regional level (a 'bottom-up-approach') can enable high quality to be sustained and programmes to be geared to a region's potential so as to maximise its capacity to absorb assistance projects. The **time factor** moreover plays a central part in partnership programming negotiations, one that is influenced by programme quality and the approval **procedures**²⁹⁷.

Many programmes revealed considerable inadequacies in the matter of ensuring **cohesion** between analysis of the regional situation, strategy and priorities on the one hand, and drawing up quantifiable objectives on the other²⁹⁸. If cohesion cannot be built into the programmes, the impact on the implementation of appropriations can only be negative, since the danger exists that a region's potential will be neglected. That in turn leads to the delays in programme approval and implementation that are caused by the tedious conciliation and amendment procedures. In particular the programmes submitted in the regions of *Campania*, *La Rioja*, *Rhineland-Palatinate*, *Midland Uplands*, and *Liege* failed to meet community standards, which meant delays in programme start-up because of the need to hold supplementary negotiations. The reasons advanced by the regions for inadequate programme quality include the **deadlines** laid down in the regulations for submitting programmes, which in most cases were exceeded. On the other hand the impression has arisen at

²⁹⁷ See also the contribution by Brenda Chester, 'Overview: Summary of Presentation', to Cohesion Forum Workshop J.

²⁹⁸ Submission by Mrs Wulf-Mathies, Member of the European Commission responsible for regional policy and cohesion: 'Efficiency, control and simplification - Efforts to achieve a just balance' - Informal meeting of Ministers of Regional Policy and regional Planning, Venice 3. and 4. May 1996.

European level in this connection that the states and regions had a tendency to treat allocations of appropriations **earmarked** in the programmes **as** the equivalent of a 'blank cheque' and for that reason did not provide the necessary information²⁹⁹. **As** already explained in chapter 4.1.2., the Commission for its part tried to use the supplementary negotiations to create an optimum relationship adjusted to the region's needs between assistance-project priorities relying on 'public' as opposed to 'private' capital stocks, since from a theoretical viewpoint these factors **can** enhance the programme's capacity to absorb. It should moreover be pointed out that the planning documents submitted by the new Member States have been of a consistently high quality and thus amenable to rapid **approval**³⁰⁰.

As already stated, comprehensive **participation** at regional and local level can contribute substantively to programming coherence. Participation is at once the expression of national allocation of powers and of quality of partnership^m. **As** stated, the use of a bottom-up approach can be considered as a factor making for the **success**³⁰² of the assistance projects. In terms of regional and local contributions to programming the following approaches can be shown to have made for success:

- Programming with the involvement of regional development offices, as in the *Borders* region, *Turnhout, Liege*, and *Navarra*;
- Programming embedded in the concept of regionalized structural policy in *North Rhine-Westphalia*;
- Programming by way of cooperation between local or regional levels and central government departments, as in *Greater Manchester*, *West Midlands*, and *Castilla y Leon*;

The Commission sought to prevent delays in programme start-ups at the preliminary stage by introducing Single Programming Documents (SPDs). The SPDs provide for single-stage programme approval, which it was hoped, together with measures to streamline **approval procedures**, would reduce the number of programmes. Even so, the number of projects awaiting approval remained very high, and even the Commission admits that the SPD option did not deliver the expected advantages^{m3}, because in Objective 1 regions the CSF approach was overwhelmingly preferred. In the Spanish and Italian Objective 1 regions, the situation was aggravated by the fact that single-fund programmes were frequently submitted, although the Commission for its part had urged that multifund programmes be drawn up. The supplementary negotiations thus made necessary delayed programme start-ups considerably. The Commission was in fact inundated with programmes, which, owing to coordination problems between the Directorates-General for competition policy, financial control and regional policy, caused further delays in launching programmes. The prolonged process of coordination with the Competition DG in particular led to repeated delays which, in the case of the *Liege* programme, meant that the last section of the OP could not be approved until **5** months before the end of the Objective **2** programming stage.

The partnership programming negotiations between the Commission and the Member States or regions thus ultimately meant significant delays in numerous structural assistance projects, leading to quite striking under-implementation of appropriations at the start of the programming stage. But

²⁹⁹ Wulf:Mathies, op. cit., p. 6.

³⁰⁰ European Parliament Draft report on the implementation of EU regional policies in Austria, Finland and Sweden, 10. February 1997 (PE219.985), p. 9.

³⁰¹ See 'Improving the Management of European Development Policy', p. 12.

³⁰² Ibid., p. 6.

³⁰³ Wulf:Mathies, op. cit., p. 6.

national and regional coordination problems also exacerbated this effect. For although the SPDs already covered all the implementing provisions, the supplementary negotiations on the 'implementation document' required for the French programmes led to delays, as did the pronounced segmentation of the administrative structures applicable to the Spanish and Italian SPDs. In the Spanish Objective 2 programme for *Aragon*, moreover, delays were also caused by the late adoption of the regional budget.

Another strong influence on the time factor in programme startups is the **timing of project selection** at programming level. Lengthy selection procedures adversely affected implementation of appropriations in *Avesnes/Douai/Valenciennes*, *Campania*, *West Midlands*, *Midland Uplands*, and *Turnhout*, because a start could not be made with commitments until projects had been adopted at a late stage. The methodology of project selection also exerted a delaying influence, because the selection method used in one case (west Midlands) was subject to high quality standards. In another (Campania) the low quality of projects selected in the first round made it necessary to hold a further selection procedure. On the other hand, the fact that project submissions had already been called for during the programming stage had a favourable impact on implementation of appropriations in the case of the *Borders* region. That made it possible to ensure a relatively prompt start to programming. In the *Greater Manchester* programme, the task of project selection was divided between the monitoring committee, responsible for large-scale projects, and the working party, responsible for small ones, which also helped to speed up project selection.

4.3.2. Programme implementation and type of measures

In the context of programme implementation, **ERDF** assistance must initially be characterized as **supply promotion**, in that it presents economic operators with a supply option. Whether or not they take up that option is an open question. At a more fundamental level, the theoretical question also arises of the extent to which governments are in any kind of position to influence choice of business location, in the private sector in particular. In relation to programme implementation it is at all events an advantage in this connection if governments can match assistance operations relatively quickly to demand, to the extent that higher-order objectives (cohesion, convergence targets) permit. Prompt adjustment to demand has a favourable impact on implementation of appropriations. Here again the time factor plays a crucial part.

The **mix of measures** for **ERDF** assistance projects set out in the planning documents, together with programme execution, exerted a considerable influence on implementation of appropriations. In that connection, the same development priorities recording insufficient implementation of appropriations came to the fore time and again:

- Assistance for **SMEs** (*Saxony, Brandenburg, Abruzzi, Aragon*);
- Agricultural and rural development (*Midland Uplands, Saxony, Brandenburg*);
- Environmental measures (*Hainaut, Navarra, Abruzzi, Saxony, Brandenburg*);
- Reclamation of derelict industrial land (*Hainaut, Liege*);
- Research and development, innovative measures (*Hainaut, Avesnes/Douai/Valenciennes, Castillay Leon, Saxony*).

The following complex of causes can be adduced for the results of assistance projects:

- The region's potential and needs were not included in the calculations when determining priorities at the programming stage;
- Priorities are based on complex and demanding measures (e.g. innovative environmental measures), leading to delays in implementation. This means that despite insufficient implementation of appropriations, reasonable measures can still lie concealed behind these priorities;
- The assistance mechanism is not sufficiently geared to the target group. That argument can in particular be validly applied to the SME sector, in that a fundamental defect **SMEs** perceive in assistance projects concerns access to venture capital, precisely an area in which EU assistance-project options tend to be lacking.

It can be fundamentally assumed that a high rate of absorption will be achieved in those priority areas that best reflect a region's need and demand characteristics, and that can thus be designated as **potential-oriented**. Priority areas that consistently achieved high implementation of appropriations in the terms of the study were: productive investment, infrastructural measures and human resources.

But it is precisely in connection with the possibility of changing the financial allocation for particular development priorities that there can frequently be observed an inflexibility in programme execution that impacts adversely on the implementation of appropriations. It finds expression in cumbersome and protracted programme amendment procedures, which can enable rapid adjustment of assistance projects to demand only to a limited extent. Numerous case-studies have confirmed this connection. For example, in the case of *Brandenburg*, delays in getting one priority approved caused a commitments bottleneck of almost **500%** to build up. In *Saxony* the application to amend the financial tables was not approved by the Commission for seven months, and in the case of *Aragon*, the partnership negotiations on reprogramming had to be resumed only **6** months after programme approval. This inflexibility in programme execution, which required a new round of protracted approval procedures, coincides with **coordination problems** between participating administrations at **European, national and regional levels**. Although the integrated approach to Fund assistance projects is to be welcomed as a whole, and programmes are predominantly characterized by a multifund approach, the synergy effects of Fund assistance projects are in effect diminished by the administrative segmentation that takes place on implementation at European, national and regional levels³⁰⁴.

This phenomenon continues to make its impact felt on assistance projects under the **Community Initiatives**, which, because they overlap in their areas of assistance both with each other and with the OPs, on the one hand represent limited added value from an organizational viewpoint, and on the other, require a disproportionate administrative effort. The advantages claimed by the Commission (faster structural change in the areas of the labour market, sectoral structures, etc) for a shorter Objective 2 assistance project stage, which is supposed to represent a more flexible approach to assistance operations, could not be confirmed by the case-studies. Indeed, on the contrary, it was repeatedly pointed out by the regions that assistance in industrial areas requires a certain **continuity**³⁰⁵. Continuity is at present ensured by arrangements requiring a considerable administrative effort whereby new OPs have to be planned, negotiated and adopted even although

³⁰⁴ See Chapter 4.3.

³⁰⁵ See also contribution by Michael Quevit - Report on Objective 2 regions - to Cohesion Forum Workshop B.

conditions by means of transfers of appropriations between development priorities, an extension of their powers is being called for³⁰⁶.

In what follows, attention will be focused on the **execution of payment procedures** from European by way of national (or regional and local) level to the final beneficiaries, characterized as it is by significant frictional losses. For the delays in payments cause planning uncertainty and liquidity problems, in particular for SMEs, independent sponsors of labour-market policy and local authorities³⁰⁷, and so directly influence implementation of appropriations adversely. Responsible in the first instance are the different ERDF and ESF payment and administration systems and problems of authority and coordination between the participating DGs. But it is not only at Community level but also at Member State level that ERDF and ESF appropriations are entered in the accounts, paid out and evaluated by different administrative departments. And here again administrative segmentation leads to further delays in the **flow** of appropriations. In the *West Midlands* the period from application for funding to payment of **ESF** appropriations to final beneficiaries could be as long as ten months. But there were also delays with the ERDF. Whereas there were delays in *Saxony* of as long as four months and three weeks, it was in *North Rhine-Westphalia* that they were reported as running at up to eight months. And it was also in *North Rhine-Westphalia* that this led to an additional drain on the *Land* budget owing to exchange-rate fluctuations. And because European appropriations for French assistance-objective areas are first paid into the national treasury, where they are of course **known** to be retained for long periods before reaching the final beneficiaries, there are again considerable delays in the flow of appropriations³⁰⁸. By contrast in eastern Germany, preliminary financing of EU Structural Fund assistance projects is made available by the *Lander* in order to minimize delays in payments³⁰⁹.

4.3.3 Assessment and monitoring

It can fundamentally be assumed that the **assessment** of structural assistance projects places the highest demands on the administrative departments and assessors responsible, and that not all Member States have a long-standing tradition of conducting such assessments to fall back on. The limited nature of the informational and self-correcting function of the regional policy assessment system has already been referred to in previous investigations.

At **European level** it is above all problems of coordination and rival powers that arise (as with the problems in programming and implementation) between the DGs³¹⁰. The fundamental problem in relation to assessment is the fact that ex-post assessment has not been integrated into the policy cycle. In all target-regions for the objectives, CSFs or **SPDs** were adopted before ex-post assessment had been concluded³¹¹. Under the present approach, points raised in criticism of the programming stage just concluded can only be incorporated into the new programming stage to a limited extent. In terms of Objective 2 assistance projects, ex-post assessment appears difficult because of the

³⁰⁶ Improving the Management of European Regional Development Policy, p. 12

³⁰⁷ See contribution by Mrs Irmgard Rottenburg - 'Programming procedures - political perspectives' - to Cohesion Forum Workshop J, and European Parliament Draft report on development problems and structural interventions in the United Kingdom, p. 15, and European Parliament: Report on development problems and structural assistance in Germany in the period 1994-1999 (PE 219.981), p. 15.

³⁰⁸ European Parliament Report on development problems and structural operations in France under Objectives 1, 2 and 5 b, 19. March 1997 (PE 221.475).

³⁰⁹ German Federal Economics Ministry, op. cit

³¹⁰ European Parliament: Assessment of EU Structural Fund Expenditure, Part I, Regional Policy Expenditure, Regional Policy Series W - 18, 1996.

³¹¹ European Commission: Analysis of ex-post evaluations of the Community support framework of objective 1 regions for the period 1989-93, Methodological lessons across seven Member States, 1995. p. XXVI.

stage just concluded can only be incorporated into the new programming stage to a limited extent. In terms of Objective 2 assistance projects, ex-post assessment appears difficult because of the overlapping of assistance projects and assessment owing to considerations of time and methods and extensive spacial fragmentation (as is also true of Objective 5 assistance projects). Further methodological aspects of assessment cannot be gone into here. It should at all events be pointed out that qualitative features of structural assistance projects (e.g. consolidation of partnerships, initiation of planning processes and partnership structures, administrative performance) have been inadequately reflected in assessments **hitherto**³¹².

The central weakness in relation to assessment and monitoring of structural assistance projects is the structuring of partnership on the vertical plane, i.e. between the EU Commission, Member States and regions. Conflicts frequently arise when it comes to making the relevant assessment data available. And the unclear power structures in the area of **financial management**, as laid down in Article 205 of the EEC Treaty and in the Fund Regulations, causes permanent conflicts between the partners. Whether the *SEM* 2000-Initiative will have the necessary clarifying effect is an open question. Some regions view this initiative as no more than a strengthening of the already existing complexity of the assistance projects and of 'over-regulation' at European level. And the Commission's statement to the effect that Article 24 of the Framework Regulation could be applied more frequently in **future**³¹³ is not reciprocated by the Member States. The Commission even goes one step further in seeking to make the release of appropriations dependent on the performance and efficiency of assistance projects in the regions (key word: 'conditionality')³¹⁴.

Despite these weaknesses, some positive trends could be identified in the case studies as regards monitoring and assessment of ERDF assistance projects at **regional level**. In most case studies the assessment was entrusted to external experts so that **an** objective result was guaranteed. Only in *Rhineland-Palatinate* did the authority executing the programme also conduct the assessment.

In relation to the assessment and monitoring of structural assistance projects, the **methodology of project selection** also exerts a strong influence on the implementation of appropriations, since it can be guaranteed by an efficient utilization of EU appropriations. The priority must therefore be to minimize the mis-allocation of assistance and maximize its targeted impact. In the *West Midlands* for example, a new and eminently sensible project-selection procedure was being used, one that operated as a mechanism **for** guaranteeing additionality. The standard procedure used in Britain (scoring system) also functions as a sensible mechanism **for** the qualitative assessment of projects. Projects must, firstly, meet a certain number of basic criteria (e.g. a net job-creating effect) before they can move on to the next stage **of** selection on the basis of specific criteria (e.g. cost **of** creating each new job)³¹⁵. One problem that must however be acknowledged in the United Kingdom is co-financing by way of the Lottery, since it allows the Lottery to exercise an inappropriate influence on project choice. The influence of central government on project choice via the regional offices similarly runs counter to the principle of transparency of assistance project management. In *Wallonia* **in** particular, defects in the selection methods became apparent in that the undertakings selected had not reached a sufficient level of business maturity and consequently failed to meet the programme launch-date.

³¹² For a critical assessment see European Parliament Assessment of EU Structural Fund Expenditure, and Improving the Management of European Regional Development Policy, p. 16.

³¹³ See also Wulf-Mathies op. cit., p. 8. Article 24 of the Framework directive authorizes sanctions if the preconditions under which assistance was granted have not been adhered to.

³¹⁴ Speech by Mrs Wulf-Mathies winding up the Cohesion Forum.

³¹⁵ COM (96) 109 final - Commission Communication: Community structural assistance and employment, p. 24.

Guaranteeing transparency in project-selection procedure is certainly a key element in ensuring the coherence, acceptability and viability of the assistance. In Italy recourse was had for that reason to tendering procedures which however had the disadvantage that they proved too time-consuming. A similarly sensible procedure is applied in *North Rhine-Westphalia* whereby projects are given preferential treatment if they are derived from approaches to development forming part of the regionalized structural policy. Further efforts to make project selection transparent were observed in *Campania* and *Turnhout*.

4.4. The administrative influence on EU Structural Fund implementation

In what follows an analysis will be offered of the influence that government departments exert in the horizontal (departments at the same level) and vertical (departments at different levels) planes on the implementation of appropriations. It must be fundamentally assumed that the administrative segmentation at European, national and regional level identified in the course of the investigation impacts unfavourably on the implementation of appropriations. As already stated, all stages in implementation (planning, execution, assessment and monitoring) are affected by this. Owing to the outstanding position of administrative influence on implementation of appropriations, this aspect will be looked into again and an analysis offered.

Firstly, the administrative influence on the implementation of appropriations at **European level** will be discussed, focussing on the considerable frictional losses incurred in the prolonged internal coordination process within the European Commission. The general coordination process takes place as part of the inter-service consultations between the Directorates-General for Finance, the Budget, Regional Policy, Social Policy, Agriculture and the Legal Service. Lastly, assistance programmes have to be scrutinized by the Competition DG. In the course of these consultations, significant conflicts can arise between the different DGs over the choice of development priorities and the assessment of the adequacy of expenditure to projects. In particular coordination with aid supervisory body causes repeated delays to some programmes. These problems of coordination and **authority**³¹⁶ at European level lead to protracted programming negotiations, inflexible programme execution, delays in payments and a restricted assessment function, and in the regions cause planning uncertainty and liquidity problems, in particular for **SMEs**, independent sponsors of labour-market policies and local **authorities**³¹⁷.

In the further analysis of the causes of conflicts at **national government vertical level**, and the investigation into additional factors, the allocation of **powers** relevant to regional policy between central government and the regions appears as a key component that has run through the entire investigation hitherto like a guiding thread. The following observations look beyond the work of the monitoring committees and their membership, since on the one hand the reasons for the allocation of responsibilities are to be found outside the monitoring committees and, on the other, the **power struggles**³¹⁸ within the committees are simply mirror-images of the allocation of powers between national government departments. A general breakdown of the allocation of responsibilities for programme implementation is provided by Table 20.

³¹⁶ See also Wulf-Mathies, *op. cit.* pp 9, 11, and *Improving the Management of European Regional Development Policy*, p. 16.

³¹⁷ von Rottenburg, *op. cit.*, and *European Parliament: Draft report on development problems and structural interventions in the United Kingdom*, p. 15.

³¹⁸ Chester *op. cit.*, p. 12.

Table 20: Allocation of implementing powers between central government and regions

Implementation primarily as responsibility of central government	Shared responsibility for implementation	Implementation primarily as responsibility of regions
United Kingdom (England and Wales), Ireland, Portugal, Greece, Spain*, Italy*, Netherlands	France	Germany Austria Belgium, Denmark, Finland, Sweden, United Kingdom (Scotland), Spain**, Italy**
*) Relates primarily to multi-regional assistance projects. **) Relates primarily to regional assistance projects.		
Source: Own calculations, plus European Commission: Seventh Annual Report on the Structural Funds, 1995		

This outline can serve only as a guide to the situation in general, since the investigation on the basis of case-studies clearly revealed significant differences in the allocation of powers within countries. As regards the connection between allocation of powers and implementation of appropriations, attention can be drawn to the following:

- The strong influence of central government leads inevitably to defects in the vertical partnership, which make their impact felt in a restricted involvement of the regional or local level in the planning, execution and assessment of assistance projects, greater financial dependence and a lack of transparency in project selection. It is particularly in England that the considerable tension in relations between 'the regions' and central government becomes apparent in this connection. It became clear how defects in the vertical plane could be mitigated by a limited involvement of local performers from the public and private sectors on the horizontal plane.
- In France, the different stages in the decentralization reforms have given rise to a complex system of 'interlocking powers' that also impacts on the implementation of Community regional policy. On the one hand, the new arrangements for implementing Community structural policy have led to an upgrading of the role of the regional prefects and an increase in the staff of these devolved administrative units of central government. The regional prefectures have formal responsibility for drawing up programming proposals in agreement with the other local and regional performers. On the other hand, the decentralized regional administrative bodies - and above all the regions - play a stronger part as the bodies that lay down overall **strategy**³¹⁹ and contribute significantly to the financing of programming documents. And the basis for making national counterpart funds available is now increasingly the state and region planning conventions negotiated at national level.
- States in which implementation can be seen as predominantly the task of the regions enjoy far-reaching powers over programming and execution, as well as financing. As the outline makes clear, the regions play a high-profile part in programme administration in the new Member States, while the partnership principle has also been introduced in a remarkably harmonious and constructive fashion³²⁰. That in turn draws attention to another success factor, namely the **quality** of partnership. A striking feature of the investigation by case studies was the fact that

³¹⁹ The regions are now increasingly taking part in formal and informal rounds of negotiations on the drawing up of programme documents. The weight of the criteria set by central government is only brought to bear on the outcome if the regions' own planning displays little regional selectivity. See J-P. Laborie and F. Taulelle, 'Etat et acteurs locaux face a la politique régionale européenne' (*State and local players vis-a-vis European regional policy*), in: *Sciences de la Société*, No. 34, February 1995, pp. 69 ff.

³²⁰ European Parliament: Regional policies in Austria, Finland and Sweden (op. cit.), p. 15.

partnership worked well in some regions (*North Rhine-Westphalia, Hainaut*), whereas in others (*Rhineland-Palatinate, Brandenburg, Saxony, Nmarra, Objective 2 assistance projects*) inadequacies were observed in efforts to involve regional policy performers. Although the latter enjoy considerable powers and undertake institutional efforts, the two sides of industry and those at **local** level were included only hesitantly.

This means that it is not only the allocation of powers between central government, the regions and local level, but also the **quality of horizontal and vertical partnership** that strongly influences implementation of appropriations. A fruitful partnership can be seen as the key to greater efficiency³²¹. Because it tends to enable:

- the use of the region's endogenous potential by involving regional and local levels (bottom-up approach) in the planning, execution and assessment of programmes, and in project selection;
- the securing of co-financing, in particular by involving the private sector heavily;
- reductions in coordination problems between the regional policy performers participating on the vertical and horizontal (administration, the two sides of industry) planes;
- coordination of policies with a genuine regional impact at national and European level.

In that connection, the introduction of **an** institutional framework (such **as** by making it a condition that the two sides of industry be represented on the monitoring committee) represents only a necessary but not a sufficient condition for a fruitful partnership. The important feature in securing a successful partnership is for there to exist appropriate corporate bodies to negotiate and coordinate³²². The following table summarizes central components of corporate negotiating and coordinating bodies involved in regional policy³²³.

Table 21: Functions expected of corporate negotiating and coordinating bodies on regional policy

Interaction	Circle of performers	Decision-making on assistance projects	Policy	Strategy
Initiating communication processes	Comprehensive involvement of regional policy performers (including those at local level)	Transparency of project-selection	Political support (central government, region, local performers)	Strategy debates should look beyond EU assistance projects
Initiating learning processes	Clear allocation of powers to respective performers	Effective in implementing commitments	Political support at EU level	Developing a general economic strategy for the regions

Mirror-images of the above problems of coordination and powers at European level also appear at the national (and regional) level in the vertical plane. In addition to the generally negative impact of administrative segmentation on implementation in the states and regions, other specific aspects also

³²¹ Wulf-Mathies, *op. cit.*, p. 6, and *Improving the Management of European Regional Development Policy*, p. 6.

³²² This should include the involvement of organized interests in policy-making and their participation in drawing up and executing policy decisions. See Paustian *op. cit.*, p. 192.

³²³ The remarks that follow are offered as a basis for further discussion and require deeper analysis.

arise. In that connection **administrative bottlenecks** became apparent in the regions of *Castillay Leon, Hainaut, Campania, Abruzzi, La Rioja, West Midlands, Midland Uplands, Liege, and Turnhout*, which further exacerbated the negative impact on implementation of appropriations. Three basic reasons for the bottlenecks can be identified:

- Political instability, as in *Campania* and *La Rioja*;
- Staff shortages or lack of know-how in the administrations, as in *Castillay Leon, Hainaut, Abruzzi, Rhineland-Palatinate, Liege, Turnhout* and the *West Midlands*.
- Departmental rivalries, as in *Midland Uplands*.

These critical assessments notwithstanding, particular attention must in conclusion be drawn to the fact that it was partly owing to EU assistance projects in these regions that a first impetus was given to establishing the partnerships, which in Italy's case even led to an agreement between the EU Commission and the central government on strengthening central and regional administrative structures³²⁴.

³²⁴ Particularly significant in this connection is the introduction of what are known as the 'orientation groups' (*cabine di regia*).

5. CONCLUSIONS AND RECOMMENDATIONS FOR ACTION HAVING REGARD TO EU STRUCTURAL FUND REFORM

Before considering central factors making for success or failure, an often neglected qualitative aspect of EU assistance projects should be addressed. As the investigation has shown, the EU assistance projects exert a considerable influence on the structuring of partnerships and on strategy and planning debates at Member State and regional level. In many regions it was only with the impetus of EU assistance projects that discussion of these aspects could even begin. This qualitative viewpoint is often neglected when the impact of cohesion policy is discussed. Cohesion success-stories are not told only in macroeconomic statistics. It would be equally wrong to consider implementation of appropriations solely from the point of view of rapid financial execution. Qualitative aspects, bound up with the question of what the appropriations are used for, must also be included in the analysis.

In what follows, central factors making for the success of implementation of appropriations will be summarized. Since the corresponding factors making for failure are the straightforward opposites of those making for success, they will not be considered separately. Those making for success include:

- **An optimally structured partnership:** Efficient vertical and horizontal partnership has already been identified as a key to greater efficiency, in particular because it enables a reduction in administrative segmentation to be achieved. An efficient partnership can only function and favourably influence the other factors making for success if the organized interests of the regional policy performers achieve input into the shaping and execution of regional-policy decisions. Thus a decentralized form of regional policy (bottom-up approach) for example tends rather to lead to a high quality of planning, which boosts the cohesion of assistance projects and makes exhaustive use of endogenous potential, thus ultimately minimizing the time factor in the approval procedure. In addition, the transparency and acceptability of the projects are enhanced.
- **Guaranteeing co-financing:** The financial autonomy of the regions or the placing of co-financing on a contractual footing between central government and the regions, together with the comprehensive involvement of the private sector, can help significantly to guarantee co-financing.
- **Creating cohesion:** This means on the one hand coordination between national and European policies relevant to the regions and on the other the synchronizing of objectives, strategies and measures between and within the different types of assistance project (including OPs, CIs, structural objectives, Structural Funds). In this connection the methodology of project selection also plays a part that has a particularly favourable effect on implementation of appropriations, provided that final beneficiaries can be targeted as accurately as possible so as to maximize project impact.
- **Minimizing the time factor:** The numerous delays (planning, negotiating, executing and amending programmes, payment procedures) can be minimized by better coordinating the participating partners on the vertical and horizontal planes. Encouraging project submissions to be lodged before the end of the programming stage can, in particular, help to reduce delays in programme startup.

In considering these aspects, closer attention will have to be paid in future research to vertical and horizontal partnership in particular. The time factor, which has been neglected in research hitherto, can moreover also exert significant influence on the implementation of appropriations.

In conclusion, the following table summarizes the factors that were shown by the case studies to have exerted particularly strong influence on the implementation of appropriations. The table of course adopts a highly abstract approach, in that a qualitative overall weighting of factors was applied to every category. To take the Campania region for example, the project selection procedure was found to be having a negative impact on implementation of appropriations. On the one hand, this overall assessment is determined by the favourable impact prompted by the tendering procedure, in that project selection acquired greater transparency as a result. On the other hand, the resultant delays had such unfavourable effects on implementation of appropriations that the overall weighting shows an adverse impact.

Table 22: Summary of factors influencing implementation of appropriations in the Objective 1 regions

Region/ factor	Hainaut	Avesnes / Douai / Valenciennes	Brandenburg	Saxony	Campania	Abruzzi	Castilla y León	Valencia
National regional policy	+	+	+	+	-	-	0	0
Competitiveness	+ -	+ -	-	-	-	-	-	+
National budget policy	+	-	+	+	-	-	0	0
Programming	+ -	+ -	+	+	-	-	-	+
Project selection	-	-	0	0	--	0	-	0
Inflexible programme structure	0	0	-	-	0	-	0	0
Mix of measures	+	+	+	+	+	-	-	++
Assessment and monitoring	0	0	+	+	0	0	0	0
Administrative influence of European level	+ -	+ -	-	-	+	+	+ -	+ -
Administrative influence of national and regional level	--	-	-	-	--	-	--	+
Partnership	+	-	--	--	0	0	+ -	+ -

++) Highly favourable influence; +) Favourable influence; Weak influence; -) Adverse influence; --) Deeply adverse influence on implementation of appropriations; 0) No reliable estimate possible.

The situation is similar when the effects on the implementation of appropriations of administrative influence at European level - which often can only be characterized as negative - have to be acknowledged. Yet this overall assessment can often conceal favourable aspects, as in Hainaut and Avesnes/Douai/Valenciennes, where although delays in programme approval by the EU Commission arose, the Commission nevertheless acted decisively during the partnership programming negotiations in helping to secure programme cohesion. This example makes it clear that accurate information about the background to the overall weighting can only be secured by looking into the case studies.

Table 23: Summary of factors influencing implementation of appropriations in the Objective 2 regions

Region/ Factor	Liège	Turnhout	North Rhine- Westphalia	Rhineland Palatinate	Greater Manchester	West Midlands	Aragón	Navarra
National regional policy	+	+	++	--	-	-	0	0
Competitiveness	-	+	+	+	-	+/-	-	+
National budget policy	+	+	++	+	-	-	-	+
Programming	-	-	++	--	++	+	0	+
Project selection	--	-	++	-	0	+	0	+
Inflexible programme structure	0	0	-	-	0	0	-	0
Mix of measures	-	0	+	0	0	0	--	+
Assessment and monitoring	-	0	++	--	0	+	-	+
Administrative influence of European level	-	-	+/-	-	+/-	+/-	-	0
Administrative influence of national and regional level	--	-	++	-	-	-	--	+
Partnership	+	-	++	-	+	+	--	+

Table 24: Summary of factors influencing implementation of appropriations in the Objective 5b regions

Region/ Factor	Centre	Auvergne	Midland Uplands	Borders	La Rioja	Navarra
National regional policy	0	+	--	++	0	0
Competitiveness	+/-	+/-	--	+/-	+	+
National budget policy	+	+	-	+	--	+
Programming	-	0	--	++	-	++
Project selection	-	-	-	++	0	++
Inflexible programme structure	0	0	0	0	-	0
Mix of measures	0	-	+/-	+/-	-	++
Assessment and monitoring	0	0	-	+	0	+
Administrative influence of European level	+/-	+/-	-	-	0	0
Administrative influence of national and regional level	0	+	--	++	-	+
Partnership	0	0	--	++	-	+

++) Highly favourable influence; +) Favourable influence; Weak influence; -) Adverse influence; --) Deeply adverse influence on implementation of appropriations; 0) No reliable estimate possible.

In what follows, the results of the case-studies will be used as a basis for making **recommendations for action** that have implications for the implementation of appropriations and also have a direct bearing on Structural Fund reform. The recommendations are thus geared to the policy cycle underlying the assistance projects (allocation of appropriations, programming, programme negotiation and approval, execution, assessment and monitoring). In the run-up to reform there is already cause for concern that it will tend to remain a one-way street if it is confined only to EU assistance projects. Attention must specifically be drawn in this connection to shared responsibilities in the context of Fund assistance projects, which necessarily also require adjustments below the European level. Unless changes are made at Member-State and regional level, Structural Fund assistance will continue to perform, both qualitatively and quantitatively, at below its potential.

The central topics of forthcoming Structural Fund reform can be summed up under the key headings of reducing the complexity of procedures, concentration, performance, improved financial management and extension of partnerships. Yet that very choice of topics is enough to generate a field of polarized tensions, with the need to introduce flexibility at one end and to maintain minimum standards at the other. If maintaining standards **has** only been possible hitherto by means of deterrent mechanisms, serious thought will now have to start being given to offering appropriate incentives (bonus schemes).

In particular by introducing **majority decision-making** into the negotiations on **allocating appropriations** and demarcating the eligibility criteria for the regions - as, moreover, already called for by the **Commission**³²⁵, a maior contribution could be made to accurately targeting the use made of Fund appropriations. To ensure that sufficient time remains in the run-up to the new round of assistance projects for programming and programme approvals, negotiations on the eligibility criteria should **as** far as possible be conducted in parallel with the debate on Fund reform.

Planning security at Member-State and regional level can be created at least in part by fixing assistance project objectives in good time as part of the **programming** process. In that connection, reduction **to three regional objectives and a single horizontal one** could help to reduce project complexity. Regional objectives would thus be concentrated on regions with backward development (Objective 1 hitherto), urban agglomerations and areas caught up in industrial structural change (Objective **2**) and rural and peripheral regions (Objective **3**). The number of the funds need not be changed because it is through them as they stand that specific problem situations can most readily be reacted to. While the ERDF and EAGGF Guidance Section would continue to deal with regional objectives, the ESF should limit itself to a horizontal objective (employment **policy**)³²⁶. The six-year **assistance-project stage** of Objective 1 programmes has proved its worth and should be extended to all assistance objectives.

The areas covered by Fund assistance have also proved their worth and should be extended only to the extent of enabling them to provide additional assistance options in the area of venture capital, which would be of particular interest to **SMEs** in view of the problems they typically experience in covering their equity **requirements**³²⁷. Nor, given liquidity problems, should extra assistance by means of loans, which of course makes sense from a financial **viewpoint**³²⁸, be further extended, since the co-financing of assistance projects would otherwise be put in jeopardy. On the planning side, Member States should be given the option of demarcating their **regions eligible for assistance** in terms of **functional criteria** (e.g. labour-market regions). The 'new' territorial unit (e.g. NUTS F)

³²⁵ European Commission: **First Report on Economic and Social Cohesion**, p. 1 16.

³²⁶ Contribution by Miguel Arias Cañete - **Optimizing effectiveness: Concentrating appropriations - to Cohesion Forum Workshop K**.

³²⁷ **European Parliament: Report on development problems and structural assistance in Germany**, p. 15.

³²⁸ European Commission: **First Report on Economic and Social Cohesion**, p. 119.

would thus - by contrast with the existing administrative demarcation - be put in a position to do justice to a region's real state of economic integration. Similarly, in addition to the statistical assessment of an eligible region (e.g. **GNP** on day **x**), there is a need for a **dynamic assessment of its assistance potential**. Past and forecast trends in the region should be included in the calculations³²⁹. On the basis of these trends a package of **transitional measures** - possibly in the form of degressive staggering of co-financing rates - could then be introduced at the end of an assistance period.

As regards **Community Initiatives**, the effort must be made to secure a significant reduction, firstly by incorporating the CIs into programmes that are running simultaneously in the areas eligible for Structural Fund assistance. The special Community interest in a topic could also be integrated into the standard programming process if the Commission were, for example, authorized to use the right to submit proposals to set Community priorities. This would mean that separate Community Initiatives would only occur in areas not included under the standard eligibility criteria.

Fundamentally, **programming at national and regional level** should be based on a **SWOT analysis** (Strength-Weakness-Opportunities-Threats) of the eligible regions, with efficiency of administration being integrated as a basic component of the analysis. The submission of programmes that take the form of a 'shopping list' could be sanctioned pursuant to Article **24** of the Framework Regulation. Other requirements of high-quality planning would be prompted by growth-oriented **differentiation of rates of assistance**³³⁰, since assistance in this connection should be oriented to development axes and upper, middle and lower centres.

So as to optimize **programming negotiations** (reducing approval times), better coordination is needed at European and national level. At European level, it is precisely in that connection that coordination between individual DGs should be improved by setting up standing horizontal working parties. In addition, coordination problems with the monitoring of assistance should be removed by bringing the rules applicable to assistance into line with regional support, extending the *de minimis* rule³³¹ and concentrating the monitoring function on cases that 'really' distort competition³³². Corresponding and long overdue organizational structures such as setting up inter-ministerial working parties should also be established at Member-State and regional level. In the course of reducing procedural complexity and approval times, the **SPD procedure** should be introduced for **all** assistance projects for the objectives referred to³³³. The current programming stage makes it clear that **equal treatment of 'big' and 'small' projects** in terms of programming and execution often imposes a disproportionately high administrative effort, which again causes significant delays. Simplified legal procedures should therefore be applied to projects to which a low level of appropriations has been allocated³³⁴.

In particular the part played by the monitoring committees should be upgraded in relation to **programme execution**. In the course of making the latter more flexible, the monitoring committees should be given powers to carry out **transfers of appropriations** between the individual priorities

³²⁹ See also Quevit, *op. cit.*

³³⁰ Improving the Management of European Regional Development Policy, S. 8.

³³¹ See von Rottenburg, *op. cit.*, and 'Gemeinsame Zielvorstellungen der Länder für die Neuordnung der europäischen Strukturpolitik, der Beihilfenkontrolle und der Gemeinsamen Agrarpolitik der EU (Joint draft objectives of the Länder for the restructuring of European structural policy, monitoring of assistance and the EU's Common Agricultural Policy)', Conference of Land prime ministers, 20. March 1997 in Berlin.

³³² MWMT, *NRW Initiatives in and for Europe*, p. 32.

³³³ von Rottenburg, *op. cit.*

³³⁴ European Commission: *First Report on Economic and Social Cohesion*, p. 120.

during the assistance-projects stage on their own responsibility. However desirable this may be from the point of view of Member States, it must also be recognized that the use of public funds requires certain monitoring procedures. A balance between monitoring and flexibility therefore needs to be struck. This could take the form of, on the one hand, raising the maximum amount that can be subject to change (e.g. up to **40%** per development **priority**)³³⁵, while on the other, arranging, in the event of frequent changes, for this lack of uniformity in assistance to be sanctioned by deductions of appropriations. The monitoring committee should moreover be encouraged to issue its **calls for project submissions** before the end of the programming stage.

In the area of **partnership**, the two sides of industry together with local authorities should be fully involved with the monitoring committee on the horizontal plane. In that connection, a division of powers between the partners on the monitoring committees is of crucial importance to ensuring effective operation. The distinction could be made between an operational partnership, responsible for orderly project execution, and a strategic partnership, concerning itself with topical aspects³³⁷.

The establishment of **interim financing societies** could reduce the adverse impact of delays in payment during **execution**³³⁷, thereby making a significant contribution to guaranteeing co-financing. These societies should be set up at Member-State level, advance the implementation of Article 21(5) of the coordination Regulation on Member States' duty of care, and prevent European appropriations from being first paid into national treasuries and languishing there for unduly long periods before being made over to the final beneficiaries. If the central government fails to live up to its co-financing duties, **Article 24** of the Framework regulation could be invoked, on the grounds that extremely adverse effects (planning uncertainty, liquidity problems) were being caused by the behaviour of central government. Delays in payment could moreover be reduced by a **one-off payment** from Fund **resources**³³⁸ and by harmonizing ERDF and **ESF** payment and administration arrangements.

The overriding objective in terms of **assessment and monitoring of assistance projects** must be to integrate assessment with the policy cycle. In other words, programming changes should only be carried out on the basis of the results of *ex-post*, interim and *ex-ante* assessment. To do justice to monitoring and assessment requirements, in particular in connection with inspection of the additionality principle, it will in future be necessary to have access to data that possess sufficient **validity**. The present investigation was no exception in having to work on the assumption that the validity of some of the data was bound to be defective since they reflect the real state of implementation on the ground only imperfectly. Considerable discrepancies were thus revealed in financial implementation, depending on whether the data originated from DG XVI or **DG VI**, **or** **from** national **or** regional sources.

A certain linkage of assistance projects to minimum objectives (**conditionality**) is indispensable for guaranteeing efficiency both qualitatively and **quantitatively**³³⁹. If the principle of additionality is to continue to be a fundamental feature of assistance projects in future, then allocations of appropriations would have to be made dependent on the forwarding of the relevant **data**³⁴⁰. It may

³³⁵ See von Rottenburg, *op. cit.*, p. 121.

³³⁶ Contribution by Karin Roth to Cohesion Forum Workshop 1.

³³⁷ European Parliament: Report on development problems and structural interventions in the United Kingdom, p. 8.

³³⁸ von Rottenburg, *op. cit.*

³³⁹ See speech by Mrs Wulf-Mathies winding up the Cohesion Forum .

³⁴⁰ Contribution by Izquierdo Collado - First considerations on the First Report on Social and Economic Cohesion - to the Cohesion Forum.

be possible to stop short of going quite so far if inspection could be made even more flexible without weakening it **entirely**³⁴¹.

In that connection, the fruitful work carried out under the **MEANS** programme should be continued, with careful attention being paid to ensuring that assessment is carried out by **external experts**. In so doing, the Commission's efforts in relation to technical assistance should be stepped up.

³⁴¹ **Improving the Management of European Regional Development Policy, p. 9.**

