



DIRECTORATE-GENERAL FOR INTERNAL POLICIES OF THE
UNION

POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

REGIONAL DEVELOPMENT

**THE INTER-RELATIONSHIP
BETWEEN THE STRUCTURAL FUNDS
AND THE PROVISION OF SERVICES
OF GENERAL (ECONOMIC) INTEREST
AND THE POTENTIAL
FOR CROSS-BORDER SERVICE DELIVERY**

STUDY

Abstract

This study aims to provide a detailed and critical analysis of Services of General (Economic) Interest in the 27 Member States and their regions and the scope of EU regional policy in their financing. In particular, the study discusses the different definitions and traditions in place, the main issues at stake in the policy debate, the levels of provision in the different countries and regions and the scope and use of Structural Funds to support the provision of those services.

IP/B/REGI/IC/2009-013

October 2010

PE 438.616

EN

This document was requested by the European Parliament's Committee on Regional Development.

AUTHORS

DEAS, Department of Economics, Business and Statistics, University of Milan (Milan)

CIRIEC International (Liège)

CSIL, Centre for Industrial Studies (Milan)

PPMI, Public Policy and Management Institute (Vilnius)

RESPONSIBLE ADMINISTRATORS

Ivana KATSAROVA

Esther KRAMER

Policy Department Structural and Cohesion Policies

European Parliament

B-1047 Brussels

E-mail: poldep-cohesion@europarl.europa.eu

LINGUISTIC VERSIONS

Original: EN

Translation: DE FR

ABOUT THE EDITOR

To contact the Policy Department or to subscribe to its monthly newsletter please write to:

poldep-cohesion@europarl.europa.eu

Manuscript completed in October 2010.

Brussels, © European Parliament, 2010.

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EXECUTIVE SUMMARY

The present study offers the Committee on Regional Development of the European Parliament (EP) a critical and comprehensive discussion about the inter-relationship between the Structural Funds (SF) and the provision of the services of general interest and of general economic interest (SG(E)I). More specifically, it provides a comparative analysis of the concepts, traditions, legislative frameworks and level of provision of SG(E)I in the 27 Member States. The discussion draws from a vast academic, regulatory and policy literature review and a qualitative and quantitative analysis of key indicators of service provision, delivery and financing.

In what follows, a critical review of the main findings and recommendations is provided.

Issues

- The **notion of SG(E)I** encompasses several services of public interest and gives rise to different definitions and boundaries according to the various national, cultural and legislative traditions. Notwithstanding the transformations that the notion has undergone, and the differences in the national traditions and practices affecting its understanding, this concept is based on a **common set of values and goals** and encompasses all services that respond to a logic of collective interest. This collective interest calls for the **universal access for all** (social, spatial and financial), the **guarantee of a continuous service** and a certain **standard in the quality delivered**, as well as responsiveness to users and **consumer protection**, along with **affordability**.
- SG(E)I relate to many **different sectors and typologies of services** which can be grouped in network utilities, public administration services which include compulsory social protection, education, health and social services, socio-cultural services. They include **services that are usually outside the scope of markets** (e.g., compulsory education, social protection), obligations of the State (e.g., security and justice) and **services of general economic interest** (e.g., energy and communications). It should be understood that SG(E)I are not to be identified with residual services for disadvantaged areas or members of the population, but are at the service of all citizens and enterprises that help ensure the exercise of fundamental rights and access to essential services, fostering social cohesion and welfare. Their economic nature is normally associated with market failures such as the collective nature of the service, the existence of economies of scale or scope, the occurrence of natural monopolies, the presence of externalities or information asymmetries. For this reason specific public-service obligations are imposed by the public authorities, which also ensure that SG(E)I are provided at an affordable price and are of high quality.

In order to gain a more practical understanding of the activities covered by SG(E)I, a tentative **list of around 25 activities** has been drawn up within the European Centre of Employers and Enterprises "Mapping Public Services" study and based on EC Regulations No. 438/2001 and 1828/2006, with each referring to a Treaty, secondary law or communication or to European Court of Justice (ECJ) judgments. In several Member States, other activities have been considered as belonging to the public domain, notably at the local level. In States with a strong local autonomy, the range of services can be very large.

Therefore, numerous activities can be considered to offer SG(E)I and these services cover a variety of sectors, such as:

- **Network utilities:** Telecommunications and ICT; postal services; energy; transport; infrastructure; public lighting; water supply and sewage; waste collection and treatment; street cleaning.
 - **Public administration services:** Compulsory social protection.
 - **Education:** Kindergarten; primary; secondary and higher education; vocational training.
 - **Health and social services:** Hospitals; ambulatory health services and ambulance services; complementary social protection; care and support services for children (including day nurseries); care of the elderly; care and protection of the disabled; respite care; support services for the long-term unemployed.
 - **Sports and leisure:** Swimming pools; sport centres; spa cures.
 - **Socio-cultural services:** Theatres; sports and music auditoriums; exhibition and conference halls; music and drama academies; museums, monuments and libraries.
 - **Other services and facilities of general interest:** Social housing; adapted housing for persons with disabilities; fire brigades; financial services; cemeteries, crematoriums and funeral services.
- The relevance of SG(E)I in the European Union (EU) policy debate stems from the consideration that they are a key aspect in the European model of society, **promoting European values, fostering social and territorial cohesion and guaranteeing the enjoyment of fundamental freedoms**. SG(E)I constitute a **cohesion factor** with respect to the provision of equal, affordable and universal services to all citizens regardless of their economic, social or geographic situation. This aspect is formally acknowledged by the Article 14 of the Treaty on the Functioning of the EU (TFEU), which implies a positive obligation of the Member States and the EU, in accordance with their respective competencies, to ensure that SG(E)I operate under the principles and conditions to fulfil their missions. Further, the Protocol on SGI annexed to the Treaty of Lisbon recognises SGI and their role in social and territorial cohesion. In conclusion, SG(E)I foster social cohesion (by guaranteeing that all citizens have access to high quality and affordable essential services), territorial cohesion (by providing services of general interest to all areas, irrespective of their geographical or economic remoteness or isolation) and aid in guaranteeing the genuine enjoyment of fundamental freedoms which are necessary to fully participate in the life of European society.
 - Given the importance of SG(E)I in the promotion of social and territorial cohesion, an **EU-wide debate** has gained momentum over the past 20 years, and has been further spurred by the **Green and White Papers on SGI**, which focused mainly on network-based industries. In 2006 a Communication on social services of general interest (SSGI) was adopted. The Treaty of Lisbon has introduced a Charter of Fundamental Rights and provided an Annex on SGI, thus further highlighting the importance of SG(E)I in the EU. These documents and the issues raised by the Services Directive have fuelled recent discussions on the definition, scope, provision, organization and funding of SG(E)I in the EU.
There has been some delay in the implementation of the Services Directive and the adaptation by the Member States of the necessary national legislation and procedures: 20 Member States have by now adopted their horizontal legislation, in 5 Member States (Austria, Cyprus, Ireland, Luxembourg and Portugal) discussions are

still going on, while France and Germany opted to include the general principles in several acts (the work is nearly finalised in Germany and still ongoing in France). However, the adaptation of existing laws is more complex and only 12 Member States have indicated that they finalised those changes.

The consequences of the numerous EU rules dealing directly with SG(E)I, or indirectly through their organisation and financing modes, still requires assessment. The debate is therefore still open and several legal and organizational issues must be further discussed in 2010, the pivotal element being the horizontal or transversal framework law for SGI and the importance of cross-border provision and cooperation.

Evidence

- Endowment and provision of SG(E)I across EU countries and regions varies considerably, and is a key factor in the debate on the future of delivery and financing of services of public interest. SG(E)I provision is characterized, both at the national and regional level, by significant differences in terms of quantity and quality. Analysing the situation in the different SG(E)I sectors previously identified, it is clear that the largest gaps in the provision of SG(E)I and the quality of the services can be found in the EU-12 countries and in rural and peripheral regions. When considering an aggregate SG(E)I indicator, comprehensive of all relevant sectors, this finding is confirmed and corroborated. The highest level of provision and quality of services is found in Scandinavian and Nordic countries and, when the regional disaggregation is considered, in capital city regions of EU-15 countries.
- The **telecommunications sector**, as a main driver of the knowledge economy, represents a key service which may also help in reducing the gaps between developed and less-developed regions in the EU. The largest imbalances relate to the EU-12 countries, where, for example, **broadband penetration rates** are below the EU average of 13% of population with broadband access. In fact, in Poland, Slovakia and Bulgaria fewer than five inhabitants for every 100 are connected to a broadband network. In **social services and infrastructures**, a different pattern between EU-12 and EU-15 countries can be detected, for example, with respect to the number of **hospital beds** (where Germany, Austria, the Czech Republic, Hungary, Lithuania, Latvia and Finland were the best endowed countries in 2006, while the UK and the southern European countries such as Portugal, Spain, Italy and Greece had a low level of health facilities per inhabitants and higher regional divergences) or with respect to **preschool childcare**, where there is a large gap across Member States, but not between old and new Members. Considering instead **unmet medical needs**, the EU-12 countries are characterized by higher costs of care, longer waiting times and difficulties in reaching the nearest care facilities. Considering the **environment and energy sector**, **water supply** differs across Member States, with EU-12 countries characterized by lower shares of the population connected to the public water supply (in Romania only around 50% of the citizens have access to the public water supply). Considering the **treatment of waste**, the capacity of waste treatment of Cyprus, the Czech Republic, Latvia and Lithuania, which in 2006 were far below the EU average (0.68 tonnes per capita of waste treated) should be improved. In the **transport sector**, many differences persist, with gaps more pronounced for EU-12 countries, in the length and quality of the **motorway and electrified railway network**. Motorway development in the eastern countries is mainly concentrated around the capital cities and other major

urbanised centres, while peripheral regions are characterized by poor road accessibility. Railway networks are present in EU-12 countries, but consist mainly of single track and/or not electrified lines that substantially increase travel times.

- Given the gaps in provision of SG(E)I at a territorial and sector-specific level, it is then natural to analyze the role of **SF** in bridging the gap between well-endowed nations and regions and areas that require additional investments. During the 2007-2013 programming period, 170 billion Euro will be invested by the ERDF and 70 billion Euro by the Cohesion Fund in basic infrastructures, 40% of which are in the transport and environmental sectors, the rest being spread between telecommunications, energy and social infrastructures. The EU-12 Member States are the major beneficiaries of this massive investment. Qualitative and quantitative statistical analysis provide evidence in favour of a negative relationship between provision indicators and SF expenditure, implying that funds are indeed directed towards areas and sectors in need. SF are thus instrumental to the achievement of social and territorial cohesion with respect to SG(E)I. When considering the overall SF expenditure in SG(E)I sectors, the correlation coefficient with an aggregate indicator of SG(E)I provision is negative (and equal to -0.57) indicating that EU countries tend to allocate SF when the endowment of services is low. Therefore, SF are contributing to the increase in delivery and quality of SG(E)I in the sectors that are lagging behind, and this seems to be especially true for the **telecommunications sector** (correlation coefficient with SF expenditure in this category of -0.59), **social infrastructure** (-0.24) and **transport** (-0.23). In the **environment and energy sector** the correlation coefficient is positive, indicating that high spending in the energy and Environment sector may be linked directly to energy saving measures and environment protection, and may be high even when the provision is good.

In this perspective, there is a **strong relationship between the provision of SG(E)I and the achievement of cohesion policy objectives**:

- The SF, the European Regional Development Fund (ERDF) and the Cohesion Fund in particular, thanks to their wide fields of intervention, finance essential infrastructures for ensuring SG(E)I provision. The ERDF finances the construction and modernisation of new roads, bridges, sewers, factories, business parks, science parks and tourism facilities. The ERDF can also support investment in education and health, Research and Development (R&D) measures, and investments linked to the environment. The Cohesion Fund finances up to 85% of the eligible expenditure of major projects involving environment and transport infrastructure. Expected outcomes of such interventions are **extension in the coverage of the population, increased quality and better efficiency**.
- At the same time, **the provision of SG(E)I reduces the disparities among regions and reinforces economic, social and territorial cohesion**. In particular, the contribution of SG(E)I to promote social and territorial cohesion can be observed at several levels:
 - **Territorial cohesion** is enhanced if the access to quality and efficient SG(E)I is ensured throughout all the EU territories, including urban, remote, peripheral and scarcely populated territories. SG(E)I are structuring elements in matters of town and country planning, above all, for the provision of regular and continuous services in rural, isolated, peripheral and insular areas;

- **Social cohesion** is ensured if people are not discriminated in the enjoyment of their fundamental rights and freedom on the basis of their social conditions. The equal access to SG(E)I is a precondition for social cohesion.

Recommendations and conclusions

- SG(E)I are an essential ingredient for the achievement of the goals of social and territorial/regional cohesion in the EU and can aid in promoting EU-wide attractiveness and competitiveness in the globalized economy while guaranteeing the exercise of fundamental rights and freedoms to EU citizens. Levels of provision are heterogeneous across SG(E)I sectors and EU countries and regions in terms of distribution, accessibility, quality and efficiency. In order to guarantee universal access to all citizens, irrespective of territorial or personal characteristics, **investment in SG(E)I infrastructure** in different sectors is crucial.

To this end, **SF are a key element** in providing lagging-behind areas and sectors with more and better services of general interest. **Cross-border cooperation** programmes should also be encouraged, especially with respect to the creation of trans-national transport, communication and energy networks. Currently, evidence from the 2000-2006 programming period shows that of ERDF funds allocated to cross-border cooperation initiative, only 30% is directed towards SG(E)I sectors. Among these, the transport and telecommunication sectors are predominant and receive the highest shares. These figures may be due to the complex architecture of delivery of Cross-border services compared to standard SG(E)I delivery programmes. However, Cross-border cooperation may be an important avenue of service delivery between regions and countries, encouraging mobility, diminishing congestions costs, providing better telecommunications and energy services and generating positive spillovers through service interoperability across regions. Targeted SF investment in infrastructure for service delivery and provision should be encouraged, as it may help in overcoming the legal, financial, technical, economic and institutional barriers to the implementation of cross-border cooperation initiatives.

- The level of provision and delivery of SG(E)I should not, however, be the only goal and objective. While universal access is of paramount importance, issues of **affordability and quality** are also crucial. Once a service's basic infrastructure has been provided, maybe financed through SF investment, a balance between financial sustainability of the service provider and affordable tariffs for users must be found. Specific arrangements, such as price differentiation schemes, fiscal instruments in the form of cross-subsidies and taxes should be put in place. Quality of the service is also to be considered, and service providers should follow guidelines and directives setting standards and minimum quality requirements. With respect to this last issue, a key role can be played by European and national policies, by providing a common, and well defined, legal and institutional framework for the provision of SG(E)I.
- Finally, from a legal and organizational standpoint, the modes of provision and the main actors involved would benefit from a clear set of legal and institutional initiatives. New modes of delivery that move away from the State as the sole provider of services of general interest require new governance and regulatory settings, common to the EU as a whole, in order to encourage integration in service

provision and delivery. Given the new delivery modes such as concessions, leases and public-private partnerships, the requirement of co-financing by the SF seems a key success factor.

In order to meet the specific needs of each nation and region in the EU, local authorities should give great care to translating the EU common framework into a set of specific national and regional arrangements that may help in achieving this goal. The role of the regions and of local government is central in the provision of basic services of general interest and local conditions and needs should be at the core of an effective policy design.

According to the principle of subsidiarity, Member States have the power of defining, organising, and financing services of general interest depending on their own traditions and requirements, while the EU delineates common principles regarding accessibility, affordability, safety, quality and protection. Member States should support nation-wide projects and framework conditions and should also be responsible to develop a strategic approach to service delivery and to ensure their affordability.

Unlike purely commercial services, financing the provision of SG(E)I usually cannot be covered solely by market mechanisms alone and additional schemes are needed. Such schemes, characterised by the coordination between various authorities and several public policy objectives and intrinsically linked to the provision of SG(E)I, are essentially dealt with at Member State level or even regional/local level. This results from the application of the principle of subsidiarity.

In this respect, differences between various services of general interest and the different needs and preferences of citizens, users and consumers resulting from different economic, social, geographical, cultural and physical situations should be respected. Due account should be taken of the diversity that characterises such services, the situations in which they are provided, the characteristics of the providers, and the need for flexibility to adapt services to various needs.

- The key policy implication regards the fact that, in a **multi-level governance context**, in order to ensure effective subsidiarity and coordination between partners, a single leadership (that could be played by the central, regional or local governments), capable of channelling and adapting the different interests involved to a common end, is essential. This aspect is an important condition for the efficient functioning of cohesion policy and SG(E)I delivery, especially when considering **cross-border cooperation programmes**. Regardless of the sector, the territorial specificities, the mode of financing, a clear political leadership and strong direction allow projects to develop coherently and follow a strict time schedule. Otherwise, there might be an adverse effect for which the multi-level governance can end up hampering the achievement of the project objectives by paralysing the decisional process. To this end, what can make the real difference in such a strategic domain is that local authority plays the role of a 'public entrepreneur', able to have a thorough analysis of the local needs, to develop a strategic vision to overcome bottlenecks, to leverage and catalyse relevant resources and the capacity to manage risks triggering creative solutions adapting to fast changing needs.