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**COMMENTS ON PROPOSED REFORM
OF EU STRUCTURAL FUNDS
BEYOND THE YEAR 2000**

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PREAMBLE

In two recent position papers UNICE has already set out its overall policy on the subject of European economic and social cohesion policy (dated 4 March and 15 October 1997).

The document presented by the Commission on 18 March 1998, in application of Agenda 2000, on the proposed content of reform of the funds, prompts the following additional comments accompanied by a number of reminders.

First of all, UNICE confirms its attachment to the objective of economic and social cohesion which, alongside completion of the single market and economic and monetary union, should ensure harmonious and sustainable development of the European Union, strengthening its internal market.

However, UNICE wishes to stress once again the need to take account of the new economic and monetary objectives engendered by the macro-economic disciplines resulting from the Stability Pact. This makes it necessary for governments to do more with less, a situation which UNICE considers not only possible but essential at a time when the European Union is about to initiate enlargement to countries with a great need for economic development.

The aim must be resolutely to contribute to development in countries or regions which are lagging behind or undergoing difficulties so that they can overcome their handicaps as rapidly as possible, and not to lock them into a logic of under-development which would require perpetual assistance.

It is also important to point out that the structural funds, and economic and social cohesion policy in general, are additional levers to the strategies defined by Member States, in line with the principle of subsidiarity. With that in mind, intra-European solidarity requires reciprocal commitment on the part of the countries assisted. The regional scope of national policies and the independence of national policies in relation to the labour market must be preserved, to take greater account of subsidiarity. The success of European assistance measures depends above all on the success or failure, at national level, to create and promote an economic climate which is conducive to investment.

This is absolutely essential for competitiveness, an indispensable tool for winning new markets and creating long-term jobs.

1. INTERESTING GUIDELINES DESPITE UNDULY GENERAL FORMULATION

For the future, UNICE notes with interest that this need for competitiveness occupies a good position in the Commission's new proposals, and generally shares the priority orientations proposed, as follows:

- improvement of competitiveness and innovation, and support for development of SMEs;
- employment through development of human resources;
- environment and sustainable development;
- equal opportunity.

The policy priorities proposed by the Commission prompt a number of comments as to their content. The proposals as currently formulated by the Commission can serve as strategic lines. However, they need to be refined in cooperation between the Commission and Member States and prior to approval of the regulations.

UNICE underlines that the structural funds may not under any circumstances be used to finance national policies which diverge from the convergence objectives defined in common agreement between Member States for effective improvement of the Union's economic and social cohesion and competitiveness. On this question of convergence, there is a difference between the programmes of the cohesion fund, the new instrument ISPA and PHARE - which lay down detailed conditionality criteria to be met by beneficiaries - and the structural funds, which do not contain provisions of this type. Thus, at the very least, the results must be monitored with great vigilance.

1.1 Priorities for action

1.1.1 Improve competitiveness and innovation, and support for development of SMEs

Improvement of competitiveness must be articulated around a small number of major priorities:

- quality accessibility in poorly favoured regions: good transport infrastructures with the necessary interconnections (road, rail, inland waterways, ports and airports);
- other infrastructures recognised as being key factors for land-use and regional development: energy networks, telecommunications, water supply, effective tools for local financial engineering, and services to SMEs in general.
- intensive support for innovation capacities through stimulation of research, development and technology transfer (R&D) and development of new communication techniques (ICTs). The latter must be available to all companies so that they can benefit fully from R&D results. In addition, they create many jobs, which justifies particularly strong support from the structural funds.

1.1.2 Employment: development of human resources

UNICE shares the view of Member States and of the Commission about the priority that ought to be given to employment, but highlights once more the fact that real jobs are the result of growth and improved competitiveness. Any artificial measure of national or EU origin

financed out of the public purse (public-sector or subsidised jobs) which have the effect of pushing up labour costs can only have harmful effects in the longer term.

In the spirit of the employment guidelines adopted at the Luxembourg summit in November 1997, UNICE urges that future initiatives to develop human resources must be strictly geared to employability, adaptability (in order to make it easier for workers to join - or rejoin - the pool of active labour), spirit of enterprise and equal opportunities through vocational training.

1.1.3 Environment and sustainable development

It is important to ensure that the constraints imposed on companies under this heading are not dissuasive and take account of the time needed to comply with standards. In that way, the notion of sustainable development will not conflict with the creation of long-term jobs which we all want.

Clean technologies must be developed for new installations; assistance with meeting standards is essential for existing installations. In both cases, close concertation with companies is needed.

1.1.4 Equal opportunity is an objective which UNICE supports. This provision must expressly target equality of access to the labour market both in terms of career advancement and new job opportunities, as well as entrepreneurship.

2. ANALYSIS OF PROPOSALS TO REFORM METHODS FOR PROGRAMME IMPLEMENTATION, FOLLOW-UP AND EVALUATION

In its document the Commission formulates a number of orientations designed to:

- redefine the division of responsibilities between the authorities responsible for programme implementation;
- extend and strengthen partnership arrangements;
- refocus the Commission's responsibility on implementation of structural policies with greater decentralisation of decision-making.

Generally speaking, these orientations are welcomed, bearing in mind the current unwieldiness of management, an excessive number of programmes and a lack of transparency on the ground.

UNICE would like the proposed new system to move in the direction of true simplification. This is not certain on a reading of the present document unless the operational procedures for implementing programmes are clearly defined upstream between the Commission - which must remain in effective control of design and evaluation - and Member States whose task is to manage the programmes.

2.1 Redefinition of division of responsibilities between authorities responsible for programme implementation

UNICE expects a great deal from decentralisation of programmes and from a new "clear division" of responsibilities between the institutional partners, clearly on condition that, as

and when necessary, decentralised state services and partner territorial communities are resolutely prepared to play this role on the ground and have the means to do so.

At EU level, it is important to ensure that this new deployment actually works in practice. Merely decreeing it is not sufficient to bring about change in administrative practices, which are presently far from moving in that direction. In particular, it is of fundamental importance in future evaluations to check the reality of shorter payment periods, an aspect which currently completely dissuades potential project managers.

2.2 Towards refocused Commission responsibility

UNICE notes the Commission's wish to "rethink and reorganise" its own role in implementation of structural policies. The Commission wants to "refocus" its "institutional responsibility" on the strategic orientations, programme approval and monitoring for good management. Nevertheless, UNICE considers that the Commission must continue to play an active role in both structural programme design and upstream definition of eligible actions. UNICE insists that the Commission should retain complete control over evaluations and selection of evaluators in order to guarantee their total independence from local decision-makers. This is a fundamental element if useful and credible evaluations are to be developed.

2.3 Concentration of themes and assisted regions

UNICE reaffirms its attachment to greater concentration of structural policies, in terms of both themes and determination of eligible regions. Given the scarcity of resources, the opportunity cost of each project will have to be taken into consideration in order to optimise the cost-result ratio of EU spending.

The Commission's proposals take account of this need to concentrate, notably through a drastic reduction in the number of EU objectives and initiatives, which UNICE welcomes. This concern for streamlining should help to improve the transparency of the system considerably - if it is not nullified by a proliferation of sub-themes.

2.3.1 Statistics

On this question, doubts can be cast on the coherence between:

- the stated wish to arrive at a given rate of coverage for the eligible population, determined in advance;
- the wish to apply objective statistical criteria for determining eligible regions.

The eligible population should be derived from application of these criteria and not the other way round. Clarification is needed on this subject.

A greater effort must be made to improve the method for assessing and diagnosing regions. This question is important, notably for determination of future regions eligible under objective 2. Experience shows that it would be particularly important to produce statistics capable of assessing the eligibility criteria more accurately at lower levels of European nomenclatures NUTS II. These data do not exist at present, which sometimes results in inadequate delimitation of regions (where there are pockets of prosperity classified as priority because statistically situated in regions undergoing difficulties, and vice versa).

In addition, refined statistical criteria would make it possible to target assisted regions better, and to assess more fully the impact of structural policies on development in the selected regions, in particular in regions eligible under objective 2.

Adaptation of national and EU statistical instruments would justify a specific point for intervention by the structural funds.

2.3.2 Zoning

UNICE considers that establishing coherence between the regions covered by State aid and those covered by EU aid is a move in the right direction. This coordination of regions should simplify the different systems and prevent the present inconsistencies. However, this exercise must be in line with national priorities and regional policies by virtue of the principle of subsidiarity.

Good coordination between action by DG IV, in charge of controlling state aid, and DG XVI is necessary in future. The role of these two Directorates General must be clearly defined and their work carried out in a transparent manner. It is clear that if good coordination is desirable between the EU approach and national approaches, it must be ensured that regions eligible for state aid are not unilaterally reduced by the Commission without the consent of Member States.

Any change must be made within a reasonable but economically justified timeframe, allowing time for adaptation in regions scheduled to leave a given assistance regime.

Lastly, a number of additional comments on zoning:

- the question of urban regions requires determination of particular criteria adapted to the specific situation of urban regions in crisis,
- the question of “frontiers” between assisted regions and non-assisted regions is a difficult subject. It would be particularly useful to provide smoothing mechanisms for the most glaring local problems (in practice, a firm on one side of a street may receive assistance but not one on the other side, etc.).

2.4 Review financing methods and promote investment

According to the Commission’s new proposals, the assistance rate - i.e. the share of the European Union in the total cost of a project - may in some cases reach very high levels of co-financing. While these high co-financing rates are sometimes justified by the inability of local partners to contribute, it must nevertheless be ensured that they do not encourage windfall effects which compromise the effectiveness of projects.

In this regard, UNICE recalls its attachment to structural policies relating essentially to investment in order to avert simple redistribution, to move in the direction of business development, and to turn towards the market. It is along these lines that the business environment should be fostered.

The Commission also wants to review the mechanism for allocating funds. It is proposed that a one-off advance be paid equal to around 10% of the total planned contribution, then payment on the basis of substantiating documents over the course of the year.

The merit of this proposal should be to avoid thresholds for releasing tranches of finance, a system which currently has a very paralysing effect on programme continuity. However, the proposed new mechanism needs to be revised since, in the absence of elements for a more detailed analysis, it appears more likely to inject complications and delays, as well as serious obstacles to involvement in privately led projects. It is difficult to see how it could help to improve payment lags, whereas it presupposes much coming and going for validation of documents between local project managers, national administrative services and Commission services.

In any event and whatever mechanism is finally chosen, UNICE calls for a trial period of one or two years so that it can be modified if it proves ineffective or a hindrance. Absolute priority must be given to procedures which are clear and effectively accessible with rapid payments. On this subject, in some highly centralised Member States, one avenue that needs to be more closely explored for simplification of procedures would certainly be to allow, under supervision of the authorised court of auditors, a direct payment of European funds to the authorities which manage programmes at regional level, i.e. without systematic transit through national budgets, which is still the case in many Member States. This practice considerably hampers the efficiency of the system, and is at the root of long payment lags.

In addition, UNICE renews its call for establishment of simplified procedures for some projects involving private partners. In this regard, it would be useful to extend use of the so-called “global subsidy” procedure - at least on an experimental basis and under strict supervision - through delegation by the public authorities to private partners of management of some projects.

The Commission should also clarify whether the ERDF and Cohesion Fund Regulations are sufficiently flexible so that multi-annual project financing mechanisms common to Public Private Partnership are encouraged (see 4).

2.5 Additionality and controls

Additionality is an inevitable dimension of structural policy. The EU must at any time be able to verify effective application of this principle in order to prevent any substitution effect, in order to confirm the leverage dimension of the structural funds, which is their only *raison d'être*.

Any initiative seeking to verify the reality of additionality is therefore a move in the right direction. On this subject, UNICE notes the Commission's proposals to put in place “negotiated additionality”, a sort of contract of good conduct between the partners. The Commission's wish to improve the reliability of controls must also be supported. Sanctions in cases of fraud must be dissuasive.

2.6 Redefine role of monitoring committees

Experience shows that monitoring committees would gain from being more strategic and less oriented towards book-keeping, in order to release them from a whole range of technical problems - essentially financial monitoring of work in progress - in order to focus more

clearly on the tasks of adaptation and evaluation of programmes. The actual composition of monitoring committees also needs to be rebalanced to the benefit of institutional partners (national, regional and local communities) and advisory partners (regional economic and social councils, active economic and social partners, etc.).

In particular in regions where this is not already the case, the monitoring committees could usefully perform the following tasks:

- adapt certain lines of measures or decide on possible redeployment in order not to:
 - set allocation of credits in stone (if they can usefully be used elsewhere, in the spirit of the programmes),
 - engender harmful delays in making the necessary adaptations (there is currently an obligation for systematic reference to the Commission for final approval);
- examine local problems linked to regional “frontiers” (see 2.3.2) and possibly grant the necessary waivers;
- regularly assess evaluations that need to be made during implementation of programmes. At the present time, the committees do not have enough time to perform this fundamental task;
- in cases of doubt, decide on whether or not certain dossiers are eligible.

2.7 10% mid-term reserve

UNICE notes with interest the concept of a performance reserve at mid-term. However, the Commission's proposal to earmark 10% for this reserve is regarded as excessive by some. It is absolutely essential to clarify its objectives and the allocation criteria - which should not alter the total level of funding at national level - as well as the associated decision-making process, which should respect the subsidiarity principle.

If such a reserve is adopted, it should also be used to adapt programmes during the execution phase. The allocation criteria must take account of both the level of completion and performance improvements under the programmes in progress. To that end, a benchmarking mechanism must be put in place. Apart from salutary emulation between Member States, it is important to prevent harmful competition between them and to provide financial support for analyses to remedy any administrative malfunctioning identified.

3. BETTER EVALUATION NEEDED

Evaluation and monitoring of structural programmes are difficult tasks. In this regard, it is important to salute the effort currently being made to put in place and expand the process. Despite this progress, significant improvements can still be made, both in methods and in the actual evaluation exercise, in order to establish its independence more fully. In any event, two elements at least argue for greater integration of evaluation as a major element in conduct of the structural policies in future:

- The new programmes as presented by the Commission should be based on a new type of relationship with Member States, which should in future see their operational responsibility widened for implementation of actions (see 2.1). It should no longer be a

matter of “co-management” between Commission and national administrations, but a new clarification of responsibilities on the basis of greater decentralisation, which in fact calls for better evaluation.

- more broadly, because of the scarcity of public resources, it is of fundamental importance to develop credible evaluations, i.e. which are capable of measuring a number of essential parameters;
- in parallel, it is important to ensure that the additional evaluation measures do not lead to a disproportionate increase in bureaucracy, and make an effective contribution to improving efficiency at regional level.

3.1 Independent evaluation

The independence of evaluators from Member States is indispensable if the exercise is to be completely objective. The experience of some countries shows that this is far from the case in the existing programmes where the margin for evaluator manoeuvre is greatly reduced because of the economic dependency link with the local authorities which manage the programmes. Evaluators are in fact selected - and paid - locally. There is therefore a risk that the options chosen will be justified, while the main objective is to help improve the system.

To remedy this, the Commission should therefore be given the task of selecting and paying evaluators, via the classical tender procedures which exist in many areas. This method would also make it possible to define minimum specifications, thereby allowing some convergence in approaches and definition of common evaluation objectives.

3.2 Clear definition of evaluation framework

Evaluation will only be truly operational if the field of action is correctly defined when programmes are launched:

- impact analysis criteria - not necessarily numerous but characteristic - must be determined at the outset for each project;
- the socio-economic environment itself must be clearly characterised and its evolution taken into account in analysis of how the programme is progressing (it should be remembered that the duration may be up to seven years, a situation which calls for adaptable criteria bearing in mind the inevitable changes over such a long period).

4. DEVELOPMENT OF EFFECTIVE PARTNERSHIP WITH BUSINESS FROM DESIGN THROUGH MONITORING TO EVALUATION OF PROGRAMMES

The partnership whereby the Commission, Member States and territorial communities work together is a fundamental principle of the structural funds. Beyond that, UNICE considers it important to develop two types of complementary partnership with business which have already proved effective in some Member States:

- consultative partnership,
- operational partnership.

Thus, it can be suggested that a parallel consultative mechanism should be established systematically, in which business players sit down with decision-makers/programme operators at regional level. Companies are the key to economic development and therefore long-term jobs in the European Union. In this context, UNICE draws attention to the fact that the proliferation in consultation partners whose representativeness is patchy and even open to discussion, far from strengthening partnership, may on the contrary undermine the objective of effectiveness. In any event, where economic development is concerned, companies and their organisations should be the partners of choice.

Finally, under the heading of operational partnership, a more determined call on private capital would make it possible to increase markedly the investments needed to strengthen the Union's competitiveness, in a public/private partnership which is probably too cautious at the present time: the major tangible and intangible transregional infrastructures should be given priority, together with all local financial engineering systems which target SMEs. UNICE has published its views in a note (25 June 1998) on European funding for Public/Private Partnerships (PPPs) at EU level in the area of infrastructures.

5. NEW OBJECTIVES

UNICE supports the Commission's proposal for reducing the number of objectives from seven to three, and the number of Community initiative programmes from thirteen to three.

5.1 Objective 1

The eligibility criteria for objective 1, which concerns regions with a development lag, should remain unchanged. These regions will receive two thirds of the structural funds. This objective 1 prompts no particular comments on the part of UNICE except a reference to the general framework in which implementation should unfold.

5.2 Objective 2

The existing objective 2 concerns regions affected by problems of industrial restructuring. It is to be widened to include actions individualised hitherto in Community Initiatives (CIs) : urban regions in crisis, sectoral restructuring programmes, rural development, etc..

These new orientations call for a number of comments:

- 80% of EU population is concentrated in urban areas. This aspect requires greater attention. There are no specific criteria governing the eligibility of urban areas. This should be the subject of a separate discussion, taking account of the accumulation of their specific handicaps and aiming to promote their economic adjustment and adaptation of the labour force to structural change. UNICE notes with interest the "urban audit" launched by DG XVI to shed light on this important question.
- when these new orientations are being implemented, it is important to ensure that the new actions corresponding to the old CIs are properly integrated in a global envelope. It would be inefficient to recreate artificially the difficulties encountered at present with management of nine individualised CIs.

5.3 Objective 3

UNICE recalls its attachment to ESF actions concentrating on employability. Since objective 3 is “horizontal” (non-regionalised), all the actions it provides for must be possible in areas eligible for objectives 1 and 2.

With regard to the proposed new regulation on the future of ESF, UNICE has issued a specific note dated 6 October 1998.

UNICE underlines the need for strict coherence between national measures which are eligible in the framework of ESF and the guidelines for employment agreed by the Luxembourg summit in November 1997.

Finally, for the programme lines earmarked for companies, UNICE would like the links between ERDF and ESF to be improved considerably, notably on the basis of better coordination between the relevant sections of the European Commission. For instance, it would be useful for aid to acquire up-to-date hardware to go hand in hand with a skills audit in the company and, where appropriate, additional aid for training people how to use this new hardware.

5.4 Community Initiatives

The local crossborder dimension is an important factor for many European regions. UNICE welcomes a bolstering of this aspect and the possibility of enlarging eligible territories.

A number of priorities should be set, such as encouragement for cooperation between economic and social partners or removal of the “crossborder effect” which is harmful in many regards bearing in mind the large disparities which remain. In this context, it would be particularly interesting to develop pilot operations for crossborder cooperation between communities, individuals or companies. These operations, geographically limited, could allow coordination of legislation and administrative practices to realise projects of common interest.

In any event, experience shows that management of the INTERREG programmes ought to be greatly simplified. Among other things, it would be useful to envisage a single and jointly managed crossborder envelope for project managers. This question - still unsolved - ought to be revisited.

In addition, for actions which so justify, it is desirable to open up the possibility of carrying out joint operations on territories covered by several INTERREG programmes without the need for separate dossiers as is presently the case. The compartmentalisation of programmes greatly complicates organisation of projects and often discourages initiatives which could easily fit into a European dynamic.

Transnational and interregional cooperation could be an interesting means for supporting coordination between Member States and regions, for development of transnational town and country planning projects in the widest sense: new ICT networks, transport infrastructures, energy networks. These programmes should in future occupy a particular place in the framework of enlargement of the EU.

In future the Commission would like to reinforce an existing interregional cooperation programme known as “INTERREG 2 C” (whose name ought to be changed to prevent confusion with the crossborder INTERREG programmes). Although this is an interesting proposal, it prompts the following comments occasioned by initial experience with application of this programme:

- the INTERREG 2 C procedure is currently much too confidential: it is important to open it to all interested parties, starting with company representatives who have been completely sidelined hitherto;
- the transregional action proposed for promotion should respect territorial competences and subsidiarity;
- lastly, the existing INTERREG 2 C programme is presented as an operation which prefigures the European spatial development perspective (ESDP). However, they should be kept separate: it is not the task of INTERREG 2 C to occupy itself with the strategic geographical orientations of different European territories.

On these questions relating to planning and development of European territory UNICE places particular emphasis on the need to open up thinking to all the partners concerned, with companies in the first rank. Town and country planning cannot be limited to a self-contained debate, especially since the currently non-binding ESDP project is presented by its promoters as serving as the basis for future formulation of a number of policies.

5.5 Article 10 ERDF

The 1% credit envelope proposed for allocation to innovative operations should be used in an imaginative way on condition that proven "value added" is guaranteed.

6. CONCLUSION

UNICE wishes to pursue a fruitful and constructive dialogue with EU authorities in relation to all subjects raised in this paper
