Regional Development in the EU

and

Access to EU-Funding

presented by

Ulrich Daldrup

Riga, 19th February 2002

CONSULTING WORLDWIDE

Programmes

Funding is available from the European Union in the framework of nearly 150 programmes

2000 – 2006: 195 billion €

- Following the geographic and thematic focus of work, the funds available for spending on structural assistance in 2000-06 will decrease. The Structural Funds have **195 billion** € for the period 2000-06. In preparation for the next enlargement, and to ensure that the candidate countries are better prepared as regards structural development, two specific pre-accession instruments have been created: the pre-accession structural instrument (**ISPA**) and the pre-accession agricultural instrument (**Sapard**). These two instruments play an essential role in what is a political and economic opportunity for the Union. Enlargement to include central and eastern European countries will see an expansion of the single market with a considerable increase in the number of consumers (currently 370 million to 500 million €), and the strengthening of the position of the Union in world markets.

BACKGROUND

The European Economic Community's primary objectives have always included the reduction of inequalities and the harmonious development of the Member States. However, the concept of economic and social cohesion was not introduced until the 1986 Single European Act. As a result, the Treaty on the European Union (1992) made economic and social cohesion one of the key concerns of the Communities.

LEGAL BASES

The Treaty establishing the European Community states in Article 2 that one of its roles is to "promote throughout the Community a harmonious development ". Therefore, Article 3, point 1.k. stipulates that Community activities should involve "the strengthening of economic and social cohesion".

More specifically, Title XVII (Articles 158 to 162) explains that the Community aims to reduce disparities between the development of various regions and the backwardness of the least favoured regions or islands, including rural areas; it lists the financial resources required for social and economic cohesion and explains the rule of the European Regional Development Fund (ERDF) and of the Cohesion Fund.

The Structural Funds:

- European Regional Development Fund (ERDF)
- European Agricultural Guidance and Guarantee Fund (EAGGF)
- European Social Fund (ESF)
- Financial Instrument for Fisheries Guidance (FIFG)
- The Cohesion Fund

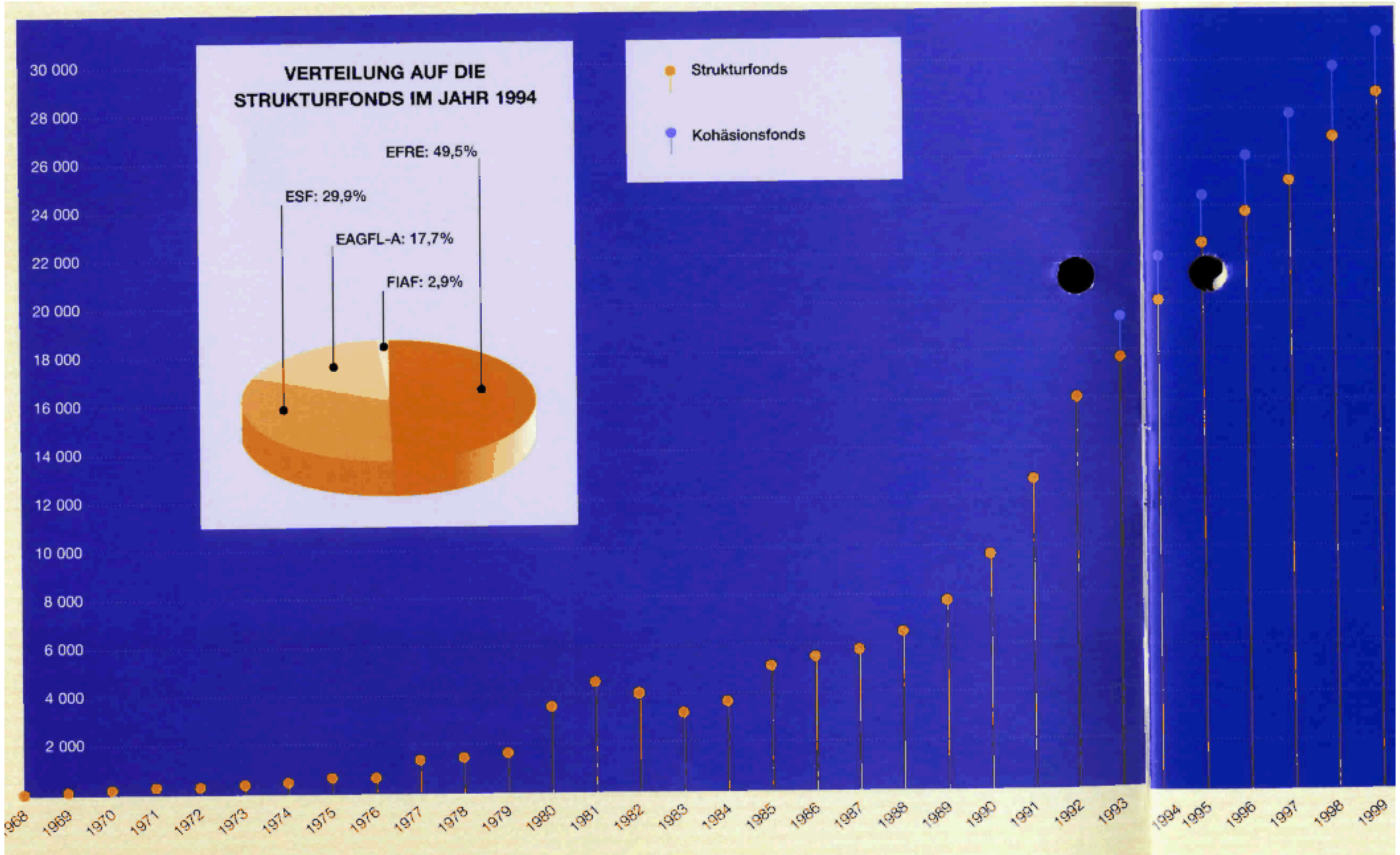
Structural Funds appropriation

The total appropriation for the Structural Funds, including transitional assistance, the Community Initiatives and innovative actions amounts to EUR 195 billion.

The breakdown between the three Objectives is as follows:

- 69.7% of the total allocation goes to Objective 1, i.e. EUR 135.9 billion;
- 11.5% of the total goes to Objective 2, i.e. EUR 22.5 billion;
- 12.3% of the total goes to Objective 3, i.e. EUR 24.05 billion;
- 0.5% of the total goes to the FIFG outside Objective 1, i.e. EUR 1.1 billion.

Allocations of Structural Funds in the EU since 1968



In million €

ECONOMIC AND SOCIAL COHESION

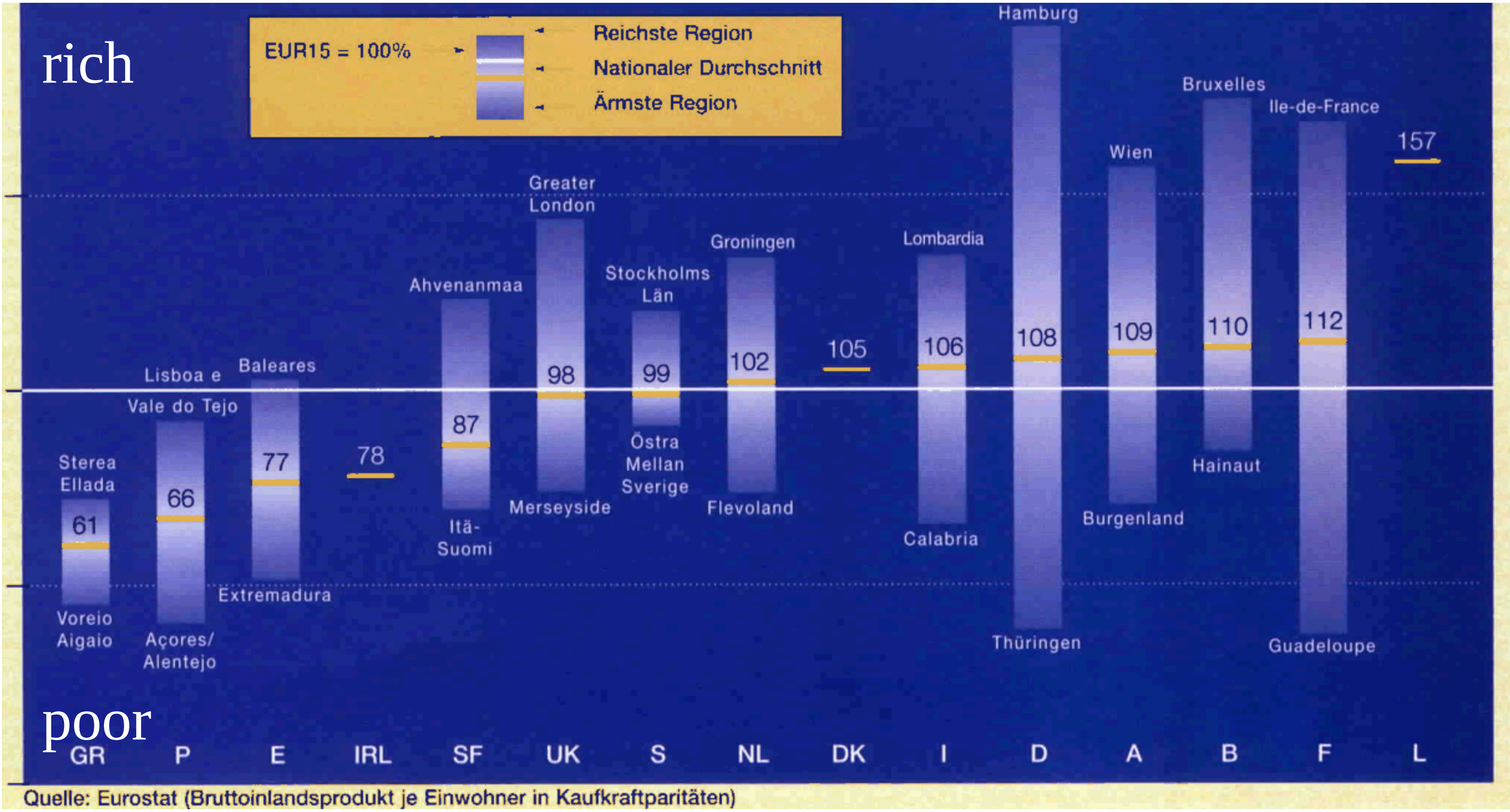
- The gaps in development and living standards between regions have long been a reality in every Member State. Over the Union as a whole, the differences are even more pronounced.

- A successful economic and monetary union requires parallel growth in all the Union countries, or else risks favouring the stronger central economies and even failure.

Cohesion fund: Eligible Member States

Eligibility is restricted to Member States whose per capita gross national product (GNP) is less than 90% of the Community average and which have a programme designed to achieve the conditions of economic convergence as set out in Article 104 of the Treaty establishing the European Community. At the moment Greece, Spain, Ireland and Portugal are eligible to benefit from the Cohesion Fund.

Regional Disparity in the EU
(1992)



The Cohesion Fund is concentrated on three priorities:

- Boosting the competitiveness of regional economies in order to create sustainable employment.
  - This means focussing on the following: efficient, accessible and sustainable transport infrastructures; energy efficiency and renewable energy sources; establishing new telecommunications services and water and waste management facilities; encouraging firms to invest in RTD and improve their competitiveness, and support for environmental protection, tourism, culture and the cooperative sector.
- Reinforcing social cohesion and employment by developing human resources.
  - With Objective 3 being the most important framework, this priority aims to do the following: use both proactive and preventive measures to influence the labour market; facilitate lifelong learning in order to increase the employability, skills and mobility of the labour force; nurture flexibility and entrepreneurial spirit, and promote affirmative action to benefit women.
- Balanced urban and rural development throughout Europe.
  - As the process of developing rural areas can promote modernisation, diversification and environmental protection, it must be complementary to the development of urban areas. Special attention is given here to areas dependent on fisheries.
- Lastly, the Communication contains guidelines on basing the structural programmes on broad and effective partnerships at local level.

Cohesion funds: Eligible activities

1. The Cohesion Fund aims to strengthen the economic and social cohesion of the Community through the balanced financing of projects, technically and financially independent project stages, and groups of projects forming a coherent whole, in the field of the environment and trans-European transport infrastructure networks.
2. The Cohesion Fund also contributes to preliminary studies related to such projects and their implementation, as well as technical support measures such as comparative studies, impact studies, monitoring and, since entry into force of Regulation (EC) No 1264/1999, publicity and information campaigns.
3. All projects financed must be compatible with the provisions of the Treaties and instruments adopted under them and with Community policies, especially those concerned with protection of the environment, transport, trans-European networks, competition and the awarding of public contracts.

STRUCTURAL FUNDS, THE COHESION FUND AND THE STRUCTURAL INSTRUMENT FOR PRE-ACCESSION

At present, four Structural Funds allow the European Union to grant financial assistance to resolve structural economic and social problems :

- the **European Regional Development Funds (ERDF**), whose principal objective is to promote economic and social cohesion within the European Union through the reduction of imbalances between regions or social groups;
- the **European Social Fund (ESF**), the main financial instrument allowing the Union to realise the strategic objectives of its employment policy;
- the **European Agricultural Guidance and Guarantee Fund (EAGGF - Guidance Section**), which contributes to the structural reform of the agriculture sector and to the development of rural areas;
- the **Financial Instrument for Fisheries Guidance (FIFG**), the specific Fund for the structural reform of the fisheries sector.
- In addition a **Cohesion Fund** , which finances projects linked to the environment and trans-european transport systems of Member States whose GDP is less than 90% of the European average, and a pre-accession structural instrument **(ISPA**), one of three instruments to aid candidate countries in preparation for accession to the European Union, also support expenditure on development of infrastructure in certain Member States and candidate countries.

Regions receiving contributions from the Structural Funds

Regions receiving contribution classified by objective:

Objective 1

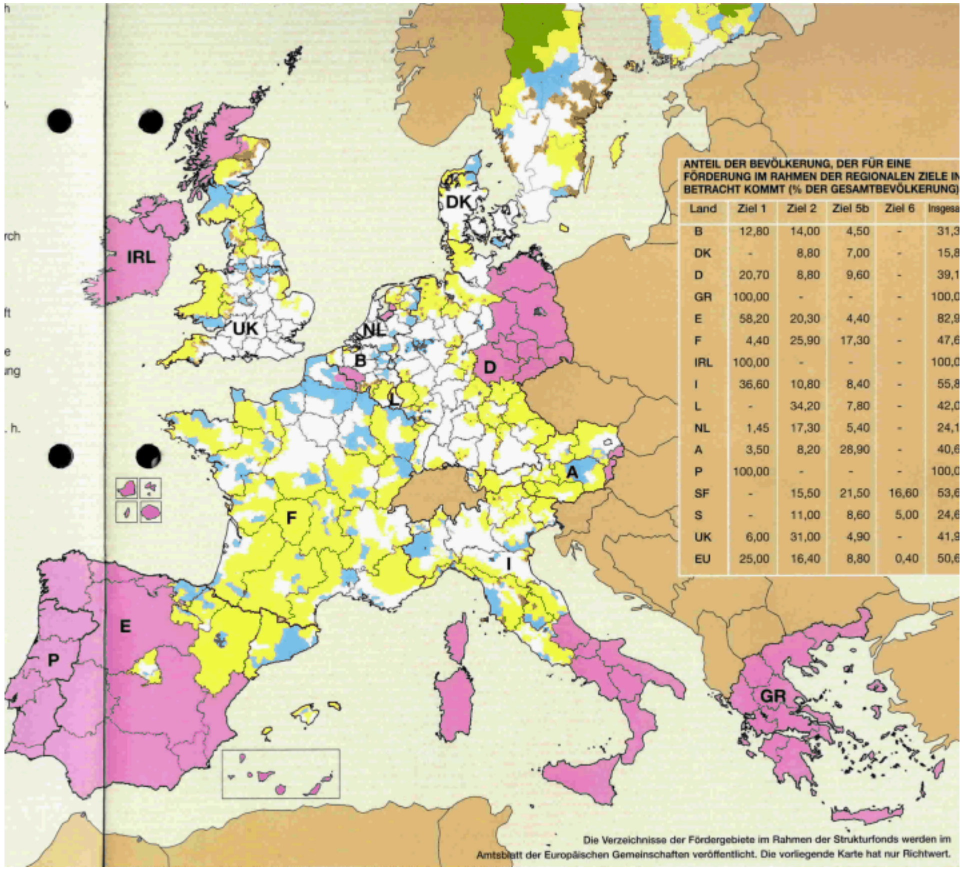
Objective 2

Objective 2 (partly)

Objective 5b

Objective 5b (partly)

Objective 6



Land	Ziel 1	Ziel 2	Ziel 5b	Ziel 6	Insgesa
B	12,80	14,00	4,50	-	31,3
DK	-	8,80	7,00	-	15,8
D	20,70	8,80	9,60	-	39,1
GR	100,00	-	-	-	100,0
E	58,20	20,30	4,40	-	82,9
F	4,40	25,90	17,30	-	47,6
IRL	100,00	-	-	-	100,0
I	36,60	10,80	8,40	-	55,8
L	-	34,20	7,80	-	42,0
NL	1,45	17,30	5,40	-	24,1
A	3,50	8,20	28,90	-	40,6
P	100,00	-	-	-	100,0
SF	-	15,50	21,50	16,60	53,6
S	-	11,00	8,60	5,00	24,6
UK	6,00	31,00	4,90	-	41,9
EU	25,00	16,40	8,80	0,40	50,6

Vidzeme Development Agency, 19 February 2002

The Priority Objectives

Concentration: structural assistance was concentrated on the most disadvantaged regions and in certain fields according to a predetermined number of priority Objectives :

- Objective 1: assistance for underdeveloped regions ;
  Objective 2: conversion of declining industrial regions;
  Objective 3: reduction of long-term unemployment:
  Objective 4: employment opportunities for the young;
  Objective 5(a): adjustment of agricultural structures; and
  Objective 5(b): development of rural areas

Form 7 to 3 Objectives

- For reasons of transparency and efficiency, the seven old Objectives were amalgamated into three: two regional Objectives and one horizontal. Thus, the new Objective 1 concerns the restructuring of underdeveloped regions, Objective 2 the social and economic revival of areas with structural difficulties and Objective 3 the development of human resources. For the regions which are no longer eligible under the old Objectives 1, 2 or 5(b), there are "phasing out" arrangements for a transitional period.

Other funds

- The new Initiatives are:

- INTERREG, which aims to stimulate cross-border, transnational and inter-regional cooperation;
- LEADER, which promotes rural development through the initiatives of local action groups;
- EQUAL, which provides for the development of new ways of combating all forms of discrimination and inequality as regards access to the labour market;
- URBAN, which encourages the economic and social regeneration of towns, cities and suburbs in crisis.

1962: The first fund: EAGGF

- In 1962, when the common agricultural policy was agreed, the European Agricultural Guidance and Guarantee Fund (EAGGF) was created to support and stimulate agricultural production in the Community. In 1964 the EAGGF was divided into "guidance" and "guarantee" sections. The "guidance" section contributes to spending on the structural reform of agriculture and the development of rural areas.

1973: The Regional Development Fund

- Following the accession of the United Kingdom, Ireland and Denmark in 1973, the European Regional Development Fund (ERDF) was created in 1975. This Fund was to help regenerate declining industrial regions in the United Kingdom and compensate for the small return the UK received from the common agricultural policy (CAP). As the Community expanded, and in particular after the accession of Greece, Spain and Portugal, the Fund focused on under-developed regions.

1993: The Cohesion Fund

- In 1993 the Maastricht Treaty, in determining the convergence criteria to be satisfied before the Member States could join the "euro zone", imposed control of public deficits. For the less well-off countries, this meant the establishment of a strict budgetary policy and an increase in investment in infrastructures to speed up their development. For Spain, Greece, Ireland and Portugal this was not feasible without Union support. As a result, to help those Union countries whose GDP was less than 90% of the Community average, the Treaty established a Cohesion Fund to help them with economic and monetary union.

Rate of assistance:

- The Cohesion Fund covers between 80% and 85% of public or equivalent expenditure on projects. However, from 1 January 2000 this rate may be reduced to take account of any revenue generated by the project and of any application of the "polluter pays" principle.
- In the case of projects generating income, i.e. infrastructure, the use of which involves fees borne directly by users, and productive investments in the environment sector, the Commission takes account of generated income in calculating Cohesion Fund assistance.
- Preliminary studies and technical support measures may be financed exceptionally at 100% of the total cost. However, total expenditure thus incurred may not exceed 0.5% of the total allocation to the Fund.
- Regulation (EC) No 1264/1999 also emphasises the need to maximise the leverage of Fund resources by encouraging greater use of private sources of funding.

Negotians with Accession Candidates

- All candidate countries except Turkey at the moment have started the accession negotiations with EU.
- On 31 March 1998, accession negotiations started with six applicant countries - Hungary, Poland, Estonia, the Czech Republic, Slovenia and Cyprus.
- On the beginning of 2000 year accession negotiations stated with Romania, the Slovak Republic, Latvia, Lithuania, Bulgaria and Malta

AGENDA 2000

At the end of the Berlin European Council on 26 March 1999, the Heads of State and Government agreed upon a policy on the Agenda 2000 , an action plan put forward by the Commission whose main objectives were to reinforce Community policies and to provide the European Union with a new financial framework for the period 2000-06 in preparation for enlargement.

This new legal framework is based on the principles of concentration of assistance, simplification and clarification of the responsibilities of Member States and the Commission.

Former EU Enlargements

- In the history of the EU there were several successful enlargements, when to six founder countries:
  Belgium, Luxemburg, France, Italy, the Netherlands and Germany joined:
  1973 - Denmark, Ireland, United Kingdom
  1981 - Greece
  1986 - Portugal, Spain
  1995 - Austria, Finland, Sweden

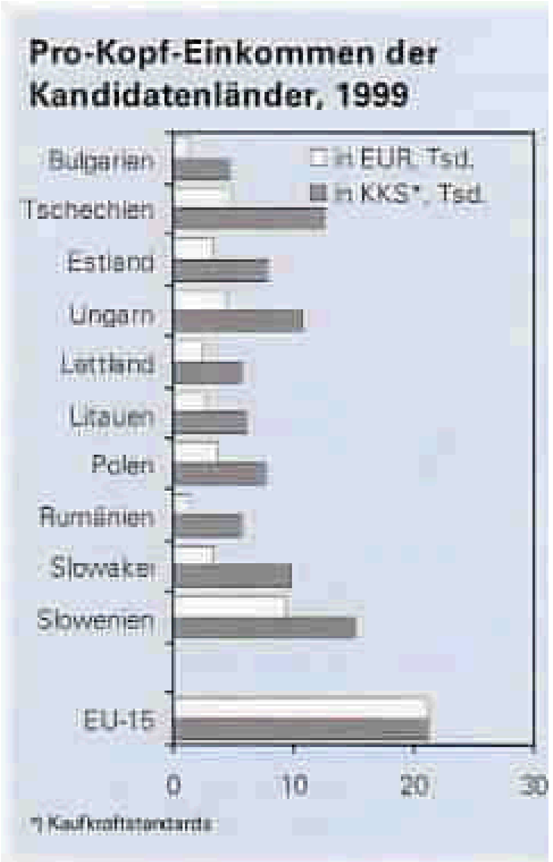
Enlargement candidates

In the March 1998 the process of EU enlargement formally has started. At the moment there are 13 countries which want to receive status of the EU member state: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Romania, Slovenia, Slovakia.

Accession Criteria

- In 1993, at the Copenhagen European Council meeting, the heads of states and governments have agreed on criteria for the future member countries of the EU. So-called Copenhagen Criteria means that, the countries aspiring for the EU membership should conform to the following criteria:
- Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
- The ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union
- Since 1997 the European Commission regularly submits to EU Council reports on progress of on each candidate country reaching these criteria.

Income per Capita



Chapters 1-8 of negotiations on December 12, 2001

o - already opened chapters

x - closed

CHAPTERS:	BG	CY	CZ	EE	H	LT	LV	M	PL	RO	SL	SK
01 Free movement of goods	o	x	x	x	x	x	x	x	x		x	x
02 Free movement of persons	o	x	x	o	x	x	x	x	o		x	x
03 Free movement of services	o	x	x	x	x	x	x	x	x		x	x
04 Free movement of capital	x	x	x	x	x	x	x	o	o		x	x
05 Company law	x	x	x	x	x	x	x	x	o	o	x	x
06 Competition	o	o	o	x	o	x	x	o	o	o	x	o
07 Agriculture		o	o	o	o				o		o	
08 Fisheries	x	x	x	x	x	x	x	o	o	x	x	x

BG - Bulgaria, CY - Cyprus, CZ - Czech Republic, EE - Estonia, H - Hungary, LT - Lithuania, LV - Latvia, M - Malta, PL - Poland, RO - Romania, SL - Slovenia, SK - Slovakia

Chapters 9-20 of negotiations on December 12, 2001

CHAPTERS:	BG	CY	CZ	EE	H	LT	LV	M	PL	RO	SL	SK
09 Transport	o	x	o	o	o	o	o	x	o	▪	o	o
10 Taxation	o	o	x	o	x	o	o	▪	o	o	x	▪
11 Economic and Monetary Union	▪	x	x	x	x	x	x	x	x	▪	x	x
12 Statistics	x	x	x	x	x	x	x	x	x	x	x	x
13 Social policy	o	x	x	x	x	x	x	x	x	o	x	x
14 Energy	o	x	x	o	x	▪	x	x	x	▪	x	x
15 Industrial policy	▪	x	x	x	x	x	x	x	x	▪	x	x
16 SMEs	x	x	x	x	x	x	x	x	x	x	x	x
17 Science and research	x	x	x	x	x	x	x	x	x	x	x	x
18 Education and training	x	x	x	x	x	x	x	x	x	x	x	x
19 Telecommunication	x	x	x	x	x	x	o	x	x	o	x	x
20 Culture and audio-visual	x	x	x	x	o	x	x	x	x	o	x	x

Chapters 21-31 of negotiations on December 12, 2001

CHAPTERS:	BG	CY	CZ	EE	H	LT	LV	M	PL	RO	SL	SK
21 Regional policy, structural funds	o	o	o	o	o	o	o	o	o	▪	o	o
22 Environment	o	x	x	x	x	x	x	▪	x	▪	x	x
23 Consumers and health protection	x	x	x	x	x	x	x	x	x	x	x	x
24 Justice and home affairs	o	o	o	o	o	o	o	o	o	▪	o	o
25 Customs union	o	x	x	o	x	x	x	▪	x	o	x	x
26 External relations	x	x	x	x	x	x	x	x	x	x	x	x
27 CFSP	x	x	x	x	x	x	x	x	x	x	x	x
28 Financial control	o	x	x	x	x	x	o	x	x	▪	x	▪
29 Financial, budgetary provisions	▪	o	o	o	o	o	o	o	o	▪	o	o
30 Institutions	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪
31 Others	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪	▪
CHAPTERS:	BG	CY	CZ	EE	H	LT	LV	M	PL	RO	SL	SK

Pre-accession Assistance

Various instruments will contribute the enlargement candidates:

- Firstly, the **Phare programme**, which aids the countries of central and eastern Europe, recently underwent a policy change and has a budget from now on of EUR 10.92 billion for pre-accession assistance between 2000 and 2006.
- **ISPA** (the Instrument for Structural Policies for Pre-accession), finances projects in the environment and transport sectors and has a budget of EUR 7.28 billion.
- **Sapard** another financial instrument for agriculture has EUR 3.64 billion.

The pre-accession financial instruments:

- Instrument for Structural Policies for Pre-accession (ISPA)
- Agricultural instrument for pre-accession (SAPARD)
- The European Investment Bank (EIB)

1999: The ISPA Fund

- With the prospect of enlargement, the Berlin Council in March 1999 decided to set up a pre-accession structural instrument (ISPA) under Agenda 2000. The aim of ISPA is to support the development of candidate countries until their accession, particularly with regard to the environment and transport infrastructure.

ENLARGEMENT OF THE UNION
Agricultural instrument (Sapard)

OBJECTIVE

To establish a Community framework for supporting sustainable agricultural and rural development in the central and eastern European applicant countries (CEECs) during the pre-accession period. To solve problems affecting the long-term adjustment of the agricultural sector and rural areas. To help implement the Community acquis in matters of the common agricultural policy and related policies.

SAPARD: Eligible measures

Support for agriculture and rural development is focused on the priorities in this sector, and in particular on:

- investment in agricultural holdings;
- improving the processing and marketing of agricultural and fishery products;
- improving structures for quality, veterinary and plant-health controls in the interests of food quality and consumer protection;
- agricultural production methods designed to protect the environment and maintain the countryside;
- development and diversification of economic activities;
- setting up relief and management services for farmers;
- setting up producer groups;
- renovation and development of villages and the protection and conservation of the rural heritage;
- land improvement and reparcelling;
- establishment and updating of land registers ;
- improvement of vocational training;
- development and improvement of rural infrastructure;
- water resources management;
- forestry, including afforestation, investments in forest holdings owned by private forest owners and processing and marketing of forestry products;
- technical assistance for the measures covered by this Regulation, including studies to assist with the preparation and monitoring of the programme, information and publicity campaigns.
- Complementarity and technical assistance

SAPARD Programming

Rural development measures must be the subject of a plan drawn up at the most appropriate geographical level. Such plans are to be prepared by the competent authorities of the applicant country, cover a period of up to seven years from 1 January 2000 and contain the following information:

- a quantified description of the current situation showing disparities, shortcomings and potential for development, the main results of earlier operations in the same field, the financial resources deployed and any evaluation results available;
- a description of the proposed strategy, its quantified objectives, the chosen priorities and the geographical scope;
- a prior appraisal of the expected economic, environmental and social impact, including effects on employment;
- an indicative overall financial table summarising the national, Community and, where appropriate, private financial resources earmarked for each of the chosen priorities;
- for each year covered by the programming period, an indicative financial profile for each source of programme funding;
- where appropriate, information on any studies, training or technical assistance operations needed for the preparation, implementation or adaptation of the measures concerned;
- the competent authorities and bodies appointed to carry out the programme;
- a definition of "final beneficiaries", i.e. the public or private organisations or enterprises responsible for conducting the operations. Where public aid is granted by other duly appointed authorities in the applicant countries, the final beneficiaries are the institutions granting that aid;
- a description of the measures contemplated for implementing the plans, and in particular aid schemes, including the information necessary for the application of the competition rules;
- provisions ensuring proper implementation of the programme, including monitoring and evaluation and the fixing of quantified evaluation indicators, and arrangements for controls and penalties;
- the results of consultations and measures to involve competent authorities and bodies and the relevant economic, social and environmental partners.

Rate of contribution

The Community will not normally contribute more than 75% of the total eligible public expenditure. In certain specific cases, it may, however, cover 100% of the total eligible. For revenue-generating investments, public aid may cover up to 50% of the total eligible cost, with the Commission contributing a maximum of 75%. The Community contribution will not exceed the ceilings on rates of aid and cumulation laid down for State aid.

Financing of projects

Approval of projects:

- Member States submit their applications for instance for projects to the European Commission. Applications must contain the information specified in the Regulation (body responsible for implementation, description, cost - **total cost must not be less than EUR 10 million** -, location, investment timetable, assessment of the impact on employment and the environment, and information on public contracts), and must comply with certain criteria designed to ensure the quality of projects (generation of medium-term economic and social benefits commensurate with the resources deployed, conformity with the priorities established by the Member States, significant and balanced contribution to Community policies on the environment - including the "polluter pays" principle - and trans-European networks, and consistency with other Community structural measures).

SAPARD: Development Plan

Development plans must give priority to measures to improve market efficiency, quality and health standards and measures to maintain jobs and create new employment opportunities in rural areas, with due regard for provisions on the protection of the environment.

SAPARD: Submission

Applicant countries should submit their rural development plans within six months of the Regulation's entry into force. On the basis of these plans, the Commission then has six months to approve the individual rural and agricultural development programmes in accordance with the procedure laid down in Article 50 of the Regulation laying down general provisions on the Structural Funds . The Commission must also appraise the proposed plan's consistency with the Regulation.

Appraisal, monitoring and evaluation:

Before approving a project, during its implementation, and on completion, the Commission and the Member States carry out an appraisal to assess the project's consistency with the Regulation, make any necessary adjustments, and evaluate the project results from the point of view of the original objectives respectively.

Financial control:

Regulation (EC) No 1264/1999 requires Member States to take responsibility in the first instance for the financial control of projects. In order to ensure that the Fund is used in accordance with the principle of sound financial management, they must check that financed projects are managed correctly, prevent and detect irregularities, and recover any amounts lost as a result of irregularities. They must also cooperate with the Commission by providing it with details of measures taken and internal management and control arrangements set up, and by helping it to gain access to national control documents.

After accession

After accession, the Structural Funds programmes and the Cohesion Fund projects will replace pre-accession assistance, due regard being taken to each country's capacity to absorb this funding.