

Official Journal

of the European Communities

ISSN-0378-6986

C 345

Volume 25

31 December 1982

English edition

Information and Notices

Contents

I Information

Court of Auditors

Special report of the Court of Auditors on job creation or maintenance in the granting of aid to regional investments 1

I

*(Information)***COURT OF AUDITORS****SPECIAL REPORT OF THE COURT OF AUDITORS**

on

**job creation or maintenance in the granting of aid to regional investments
(Observations, Article 206a, EEC Treaty)**

This report was adopted by the Court of Auditors in its meeting of 30 July 1982, in application of Article 206a of the EEC Treaty. On 18 February 1982 it was sent for comment to the Commission of the European Communities whose replies are attached.

SUMMARY OF CONTENTS

	Page
1. <i>Part one: Introduction</i>	2
1.1. General objectives	2
1.2. The conditions for intervention of the ERDF in the industrial sector	3
1.3. Relations between the ERDF and the national systems of regional aid	3
2. <i>Part two: Difficulties in the application of the provisions governing the granting of aid on the basis of jobs</i>	5
2.1. The relation between aid, investment and employment	5
2.2. Methods of assessing and forecasting the creation of jobs	6
2.3. Requirement of the creation or maintenance of a minimum number of jobs	8
3. <i>Part three: Methods of determining the results achieved in respect of employment</i> ..	9
3.1. Differences found in the concept of employment	9
3.2. What is to be understood by the 'creation' or 'maintenance' of jobs?	9
3.3. How and by whom are the jobs certified?	10
3.4. When are the numbers of jobs verified?	11
3.5. Penalties for failure to achieve the number of jobs forecast	12
4. <i>Part four: Conclusions</i>	12

PART ONE

INTRODUCTION

1.1. General objectives

1.1.1. This report concerns the criterion of job creation or maintenance in the granting of both Community and national aid to regional investments.

Its aim is to examine, from an audit viewpoint, the role of this criterion and the problems posed by its application, both in the examination of requests for aid and in the implementation of aid decisions.

1.1.2. The European Regional Development Fund (ERDF), created by Council Regulation (EEC) No 724/75⁽¹⁾, is the instrument of Community legislation, designed to correct the main regional imbalances arising in particular from the preponderance of agriculture, and from industrial change and structural underemployment. The relevant appropriations are entered under Chapters 50 and 51 of Section III ('Commission') of the general budget of the Communities for the financial year 1982.

In addition to the financing of infrastructures, not examined in this report but which may itself have a significant effect on the growth of employment, the ERDF provides for the financing of investments in industrial or service activities ensuring that new jobs are created or existing jobs maintained.

For such investments, the question of employment, in quantitative and qualitative terms, is central to the problems of aid; it is therefore essential that the relevant provisions be analysed, with a view to assessing their role and scope.

1.1.3. This report contains no accounting or statistical information either on aids granted by the ERDF to promote jobs in the industrial sector or on the number of jobs created or expected to be created. By its very nature, such information has no bearing on the questions discussed.

On the other hand, the matters discussed below may perhaps allow a closer understanding of any data compiled on this subject, at Community or national level, and a better appreciation of their significance.

1.1.4. A brief summary of the general conditions for the intervention of the ERDF in the industrial sector and the links between the ERDF and the national systems of aid to regional investments is followed by Part Two of the report.

This analyses the effectiveness of the provisions in terms of the influence they have on employment through investment aids. The main obstacles arise from the difficulties of forecasting in the area of job creation and from the lack of a clear relationship between aid, investment and employment. The requirement of the creation or maintenance of a minimum number of jobs appears therefore to have little justification.

Part Three of the report, followed by the general conclusions, concerns the results achieved in the area of employment. It outlines the findings made during on-the-spot audits in the Member States, in particular the differences noted, as already mentioned in the Court's Annual Reports, in the concepts of 'employment', job 'creation or maintenance' in the methods of certifying jobs and in the periods of reference applied. It also deals with possible penalties for failure to achieve the number of jobs forecast.

⁽¹⁾ Council Regulation (EEC) No 724/75 of 18 March 1975 (OJ No L 73, 21. 3. 1975, p. 1), amended by Council Regulation (EEC) No 214/79 of 6 February 1979 (OJ No L 35, 9. 2. 1979, p. 1) and by Council Regulation (EEC) No 3325/80 of 16 December 1980 (OJ No L 349, 23. 12. 1980, p. 10).

1.1.5. Although the situation described in this report is based on findings made in connection with the ERDF Regulation as applicable at 31 December 1981, most of the views expressed remain valid even in terms of the new proposal for amendment submitted by the Commission ⁽¹⁾.

1.2. The conditions for intervention of the ERDF in the industrial sector

1.2.1. The granting of ERDF aid to investments in industrial or service activities is subject to four basic conditions:

- (a) the aid may only be granted in certain less-favoured regions (in terms of employment in particular) which are the subject of a regional development programme;
- (b) the aid must be in respect of an investment of a minimum amount within the framework of the creation, extension or restructuring of industrial or service activities;
- (c) the investment assisted is chosen on the basis of its direct or indirect bearing on employment and it must ensure the creation or maintenance of at least 10 jobs;
- (d) the investment must benefit from State regional aids in the form either of grants or subsidies or interest subsidies (or their equivalent for loans at reduced rates of interest) linked to the investment or to the number of jobs created.

1.2.2. The Fund's contribution is 20% of the investment cost. It may not, however, exceed 50% of the State regional aid and is also limited with reference to a certain amount of the investment per job, which varies according to the type of operation assisted. This ceiling is intended to prevent the granting of aid to capital-intensive investments and reflects the desire to give priority to employment. The same thinking lies behind the more favourable

terms granted for job creation and to craft industries, which are assumed by their nature to provide more employment. Employment is thus both a condition for aid and a limitation upon it.

1.2.3. Needless to say, the jobs created or maintained must be of a durable nature, since the aid is only granted to viable undertakings.

1.3. Relations between the ERDF and the national systems of regional aid

1.3.1. One of the special features of the ERDF is that the aid is paid to the Member States, in partial reimbursement of their own regional investment expenditure. The ERDF rules are thus superimposed on the various systems of regional aid implemented by the Member States, which may take various forms and may prove at times more flexible and at others more restrictive than Community legislation, in particular in respect of employment.

It is therefore necessary to examine the principal systems of national aid which qualify for assistance from the Fund and, more especially, the role played by employment in their application.

1.3.2. *Systems based on investment*

1.3.2.1. Certain aid systems are based solely on investment. This is the case, in particular, with Regional Development Grants in Great Britain, regional supplements under the 'Wet Investeringsrekening' and the principal application of the 'Investeringspremieregeling' in the Netherlands, various settlement premiums in France and also certain aids granted in Italy in mountainous areas and in areas with serious structural problems.

1.3.2.2. This does not mean, however, that concern with employment, whether in its quantitative or qualitative aspects, is totally lacking.

Firstly, it should be remembered that the regions which can qualify for these aids are defined by

(1) OJ No C 336, 23. 12. 1981, p. 60.

reference to a number of criteria, among which employment is one of the most important. Secondly, certain types of investment often receive preferential treatment, in particular investment in activities which create jobs requiring special skills. The same applies for the small and medium-sized undertakings, which are assumed to be more labour-intensive.

In some cases, employment serves as the basis for calculating the ceiling of aid to be granted on the basis of the investment cost per related job.

This is the case in Germany for the application of the 'Investitionszulage' and the 'Zuschüsse nach der Gemeinschaftsaufgabe-Verbesserung der regionalen Wirtschaftsstruktur' which are in essence investment aids for the creation or restructuring of an undertaking.

1.3.2.3. Another factor in assessing the effect of the aid on employment is whether it is automatic or discretionary. The audit tended to show that the more automatic the system, the less chances there are that problems of employment will be taken into consideration.

On the other hand, when the aid is of a more discretionary nature, employment is often a very important criterion in the decision-making process.

This is the case in Belgium, Denmark, Luxembourg and Ireland where aid applications by the undertakings must describe the anticipated effects of the planned investments on employment, even in qualitative terms.

1.3.2.4. By way of conclusion, it can be stated that in the systems of aid based on investment, the problem of employment in the regions concerned always receives tacit consideration, especially when they are of a discretionary nature.

1.3.3. *Systems based on employment*

Systems where the aid is granted solely on the basis of employment are not very common. In its purest

form, this type of system is only in force in France in the case of special rural aid and/or in the Netherlands for the application of the 'Investeringspremieregeling' in the area of Lelystad. It is also to be found in Belgium where it is applied only to small and medium-sized undertakings (in a very generous manner, since there need not be an investment).

This type of system, which does not qualify for ERDF assistance and is difficult to supervise, is usually intended especially for small and medium-sized undertakings; it usually does not meet the minimum conditions as to number and quality of jobs.

1.3.4. *Systems based on both investment and employment*

1.3.4.1. The systems of aid can be divided into two categories as regards the jobs related to the projects submitted. The first category comprises legislation which requires the creation or maintenance of a certain number of jobs, without further specification. Into this category fall the 'Kredite aus dem ERP-Regionalprogramm' in Germany, the aid to job creation in industrial conversion zones in France, and the assistance from the 'Cassa per il Mezzogiorno' in Italy. The 'Investeringspremieregeling' in the Netherlands in certain cases and the Selective Financial Assistance in Great Britain in the case of service industries are variants in which employment serves as a basis for calculating the aid.

1.3.4.2. The second category requires the creation of a minimum number of jobs. Sometimes the minimum is lower than that of the ERDF: this is the case with the development premium for craft industries in France, where the amount of the aid is based on the number of jobs, but is limited to a certain percentage of the investment cost.

Sometimes, the requirements in terms of jobs may be stricter, as in the case of the expansion of an undertaking assisted through the 'Investitionszulage' and the 'Zuschüsse nach der Gemeinschafts-

aufgabe-Verbesserung der regionalen Wirtschaftsstruktur' in Germany, location premiums for tertiary activities and assistance from the Special Fund for industrial conversion in France, and aid to certain service sectors in Italy.

In some cases, the minimum is the same as that of the ERDF, as is the case with location premiums for research activities in France and with the general provisions of the system of regional aid in Greece.

1.3.4.3. In this case too, the total aid is limited either to a certain percentage of the total investment cost, or on the basis of the cost per related job.

It is only in Germany that the requirements concerning the number of jobs to be created or maintained are supplemented by qualitative measures.

1.3.4.4. In some countries there is a time-limit, varying between three and five years, for fulfilling promises of employment. It should be remembered, however, that in the majority of cases, with the notable exception of France and to a lesser extent Italy, defaulting undertakings may benefit from wider mitigating circumstances. In general, the penalty consists of suspension of payment of the aid until the undertaking fulfills its commitments and less often in reduction or even reimbursement of the aid.

PART TWO

DIFFICULTIES IN THE APPLICATION OF THE PROVISIONS GOVERNING THE GRANTING OF AID ON THE BASIS OF JOBS

2.1. The relation between aid, investment and employment

2.1.1. As stated above, all Member States in granting aid take into account the effect of the investment on employment. The number of jobs created may constitute the basis for calculating the aid, which is then expressed as a certain amount per job. It may also serve to classify the investment in a particular category, the actual calculation of the aid being made on a different basis.

There is, in fact, a wide variety of forms of intervention, from direct action on investments to direct action on jobs, which do not seem to meet any simple criterion.

2.1.2. Even if it is generally accepted that the aid serves to stimulate and encourage investment, it is difficult to determine its real impact independently of the economic and financial context of the under-

taking or of the wide array of measures applied by the public authorities to promote development.

The influence of the aid on willingness to invest will depend certainly upon the amount of aid involved, but also on how sure the undertaking can be of its chances of obtaining a subsidy. Aid which is concentrated at the beginning of an investment project is to be considered more of an incentive than if spread over several years after the start of the project.

2.1.3. The impact of aid also varies according to whether the undertakings assisted are successful or only marginally profitable. In theory, aid should offer the greatest incentive in the latter case, but such undertakings may also be those with the highest failure rate for investment programmes.

The effect of aid on the undertaking depends to a large extent on the latter's situation in relation to what might be called its subsistence level, i.e. the

return which enables it to maintain normal economic growth.

If the undertaking is well above its subsistence level, it probably would in any event have undertaken the investment in the long term. The aid will have the effect of reducing the cost of the operation and the firm's position will thus be strengthened.

Aid granted to undertakings at or below subsistence level may indeed enable them to undertake new projects or at least to survive. But this is true primarily if the economic climate is favourable. The danger is therefore that the aid will delay closures until a period of economic depression i.e. until the worst possible moment.

2.1.4. There is a lack of statistical information on the performance of the assisted undertakings or on their chances of survival or of becoming profitable within a given time. It is a fact, however, that a grant of aid to an undertaking often leads subsequently to renewed requests for aid, whereas aid is by definition effective when it is not followed by further requests for assistance.

2.1.5. Any system of aid may also have negative effects. To subsidize the investment projects of undertakings is to push them into programmes which, normally, in the absence of the system of aid, would not have been realized. Such an approach is likely to result in poor investments being chosen and it is therefore necessary that the criteria used in selecting undertakings and projects clearly specify the investments to be assisted.

2.1.6. Investment aid linked to the creation of a certain number of jobs is usually considered as encouraging the hiring of workers, whether in the form of a premium per worker employed or of participation in investment expenditure, thus reducing the cost to the undertaking.

However, investment which directly creates the greatest number of jobs in the short term does not necessarily have a more healthy influence on employment than where the results will only be felt in the long term and will mostly consist in attracting other economic activities.

2.1.7. For the connection between employment, investment and aid to be complete, even in very general terms, it must be able to cover also the indirect effects, both quantitative and qualitative, in the short and longer term.

The influence of investment on employment cannot, in fact, be determined solely on the basis of the number of jobs immediately created. It is also necessary to assess the durability and thus the competitiveness of these jobs, their effect on competing firms, the stimulus to related economic activity, in particular as regards customers and suppliers.

2.1.8. It is thus with good reason that, in respect of the criterion of employment in the granting of ERDF assistance, Article 5 of the Fund Regulation provides that Community assistance shall be decided according to the 'direct or indirect' effect of the investment on employment.

In assessing this effect, however, serious difficulties are encountered, which are outlined in the following section and which need to be carefully considered in order to judge the scope and impact of the present system.

2.2. Methods of assessing and forecasting the creation of jobs

2.2.1. Is it possible to predict, with sufficient accuracy, the number of jobs that will result from an investment? What is the nature and quality of the methods of forecasting? Are they reliable?

The reply to these questions is unfortunately disappointing. The main purpose of the methods used to forecast employment trends in an undertaking is to ensure a rational consideration of the choices affecting the future and to present these choices, enumer-

ating the variables that influence them and estimating the probabilities and uncertainties of their consequences. These methods, however, whether the technique is correlation, extrapolation or simulation, only afford predictions of limited value with regard to the effects of an investment on employment.

2.2.2. It is only possible to forecast scientifically events governed by known determinants. Even under favourable circumstances, forecasting remains a delicate operation.

The difficulty lies not so much in the complexity of the methods used than in the high number of variables to be taken into consideration, expressed mostly in terms of probabilities.

Forecasts may be short, medium or long term. The problems of day-to-day management are obviously the main short-term concerns of an undertaking, while the problems of investment constitute its major medium-term concern.

On the basis of the market prospects for a given article and a given quantity, the undertaking will make an investment combining labour and capital in optimum proportions, the criterion being the cost of each of these items.

2.2.3. Calculation of the number of jobs is thus affected by market studies (determining the type and quantity of product to be manufactured), methods of production (determining the ratio of capital to labour) and work occasioned by production jobs (maintenance, supervision, accounting, sales...) which has repercussions all the way to the final consumer.

The point should also be considered that the cost of acquiring the technology that the new job is to serve varies with time and branch of activity.

The same level of production may also be obtained by different combinations of technology and labour.

2.2.4. The result of the calculations thus becomes haphazard where the forecast does not limit itself to a few variables in relation to the initial situation of the undertaking, but aims to cover trends in a greater number of factors which influence employment and appreciation of which is therefore essential for any meaningful forecast.

There are many uncertainties, even as far as the undertaking itself is concerned, the moment the attempt is made to ascertain the subsequent influence of the investment on employment, in particular as regards the increase in business once the installation has started to operate: will the anticipated increase in customers make it possible to maintain the number of jobs created? Will it be necessary to recruit more staff? Or to make staff redundant?

2.2.5. If, at this micro-economic level, forecasting is already subject to such uncertainties, any commentary on professions or whole sectors, or indeed on the national or international economy, is even more hazardous.

The difficulties arise not only from the increasing complexity of relationships, but also from developments triggered by new factors, such as changes in technology, in behaviour or in values, or indeed political and social uncertainties.

2.2.6. Consequently, if the forecast is based from the outset on a sufficient number of variables, it will be hazardous; if, on the contrary, it only takes a few variables into account, it will not be significant.

In both cases, especially when it takes the form of a number of jobs to be created or maintained, as is the case with the ERDF, the forecast is not sufficiently representative of the overall effect of the investment on employment.

The arrival of a new undertaking may have a negative effect on competing firms: how many would have their existence endangered? How many would have to make staff redundant? The new concern may equally attract other undertakings which, for example, settle in its vicinity in order to benefit from the influx of clients and suppliers caused by its presence.

2.2.7. More detailed forecasts would be open to more informed examination, both at the management stage and on the audit of projects.

In any event, it would appear beyond doubt that a system of assistance in which the granting of aid is based on the number of jobs cannot dispense with a stage of critical comparison forecasts and results in the field of employment, both in the undertaking itself and in general.

2.3. Requirement of the creation or maintenance of a minimum number of jobs

2.3.1. Both at national and Community level, certain systems of regional aid only allow participation in the financing of investments in industrial, craft or service industries on condition that a set minimum number of jobs be created or maintained.

A project which does not result in creating or maintaining this minimum number of jobs is thus ineligible and, whatever its merits, does not qualify for regional aid.

2.3.2. Such a provision obviously eliminates smaller projects which are considered insignificant, and should therefore enable the aid to be concentrated on larger projects.

2.3.3. It should first of all be noted that this threshold may prove difficult to attain in particular for small and medium-sized undertakings. The latter will experience the most difficulty in complying with such a condition which may even appear discriminatory, in so far as it does not take into account the initial size of the firm and therefore has not the same significance for a major undertaking with a large staff as for a small firm, for which the increase in staff represented by the minimum number of jobs required may be proportionately much greater.

The policy of excluding small projects appears even less justified when it is considered that in terms of management and audit they are often easier to check for efficiency and proper implementation than major investment projects.

It also runs counter to the increasing interest, both at national and Community level, in encouraging the employment potential of small and medium-sized undertakings.

2.3.4. Moreover, the need to attain a minimum number of jobs is liable to result in short-term concerns prevailing over the longer term effects. There is also a danger of the qualitative aspect of the jobs being overshadowed, although even a small number of certain jobs, involving for example new products, may have the effect of stimulating the creation of whole new fields of economic activity.

2.3.5. It should also be noted that in administrative practice, the existence of such a minimum can result in a certain distortion of what are considered the obligations of the beneficiary undertaking in respect of employment.

In practice, an undertaking that only creates the minimum number of jobs required, although the forecast was higher, remains entitled to payment of the aid and is often considered as having satisfactorily fulfilled its obligations, even if the results are disappointing when compared with the number of jobs anticipated.

PART THREE

METHODS OF DETERMINING THE RESULTS ACHIEVED IN RESPECT OF EMPLOYMENT

3.1. Differences found in the concept of employment

3.1.1. Although the ERDF Regulation does not give any definition of employment, the latter may be considered as all the tasks which form the usual professional activity of an individual and which meet a social need.

In this sense, to create a job is not only to provide the possibility of working a certain number of hours for an agreed salary, at tasks involving a particular qualification, but actually to entrust those tasks to an employee.

3.1.2. This concept was found by the Court to correspond to administrative practice in a number of Member States, which assess the number of jobs created or maintained on the basis of staff actually employed.

They also showed however, that — mainly in Germany — the number of jobs was assessed on the basis of organization charts of posts, without reference to whether the tasks were actually performed by a member of staff. This is a fundamentally different concept, which gives a looser meaning to the term 'job', one that is more difficult to control, and audit visits in Bavaria and Lower Saxony revealed that undertakings benefited from aid for the creation of jobs on the basis of extended organization charts, whereas the staff employed had actually decreased.

3.1.3. The structure of jobs may, in certain cases or certain types of undertakings, be of a special nature, such as short-time working or outdoor work, without there being any rules at national or Community level for translating these into standard jobs.

In the United Kingdom, seasonal jobs in the tourist industry have sometimes been deemed equivalent to full-time jobs. In France, the regulations, at least in certain cases, require a minimum of four months' employment per year.

In Germany there is a system, not accepted by the Fund Regulation for Community reimbursement, of counting jobs created as double when they are occu-

ried by workers in apprenticeship or undergoing training.

There is no differentiation of this kind in the ERDF Regulation, which does not make provision for the granting of privileges to certain types of job because of their particular economic or social value. Such a distinction is possible when examining and selecting investments to be assisted and therefore when assessing their effect on employment, but the project management files do not in fact make any reference to this.

3.1.4. The legal definition of employment is, furthermore, not standardized in the various countries. As a general rule, the staff occupying the posts created or maintained are linked to the beneficiary undertaking by a contract of employment. Cases were, however, found of persons linked by a more tenuous contract for services, for example, as sales representatives.

Undertakings declare as jobs created the services of staff responsible for cleaning, caretaking, or miscellaneous maintenance, which may be contracted out to specialized firms and the volume of which can therefore not be verified. It also occurs that use is made in this connection of multipliers to calculate, on the basis of the number of production jobs, the total number of staff for the purposes of the aid regulations, taking account also of absences and sundry cases of staff replacement.

However, such multipliers vary considerably from one undertaking to another, depending in particular upon the individual structure and the kinds of activity. Their use, apart from exceptions of minor importance, does not make it easier to verify the real number of posts and increased reliance on them is indeed unlikely to simplify or improve the work of the local administration in applying the legislative provisions relating to employment.

3.2. What is to be understood by the 'creation' or 'maintenance' of jobs?

3.2.1. Aid from the Fund is granted to investments which create or maintain jobs, but the current provi-

sions do not define 'creation' or 'maintenance' of jobs and examination of the administrative practices of the Member States reveals various difficulties, which may be distinguished according to whether the creation, extension or reorganization of the undertaking is concerned.

3.2.2. The creation of a new undertaking represents the simplest situation in this context. To ensure its operation, the new undertaking requires staff and the total number of staff thus gives the number of jobs created.

For the application of the regulation, it is immaterial whether the new unit is replacing another in the same region or in another region which has ceased to exist or is about to do so. If such replacement takes place to the detriment of a highly developed region and to the advantage of a less-developed region, it is even considered as meeting one of the fundamental objectives of the regional development policy and may, in certain countries, lead to 'decentralization', premiums being granted, which are specially provided for this purpose, but which have not been submitted to the ERDF for reimbursement.

3.2.3. The extension of an undertaking raises similar problems. Its purpose is usually to increase production potential with a view to developing or diversifying its activities. But it may simply be to consolidate activities which were previously dispersed, or even to incorporate stages of production previously sub-contracted, and clearly the number of jobs will be affected by changes of this kind.

3.2.4. When examining applications for aid the Member States endeavour to detect, analyse and prevent the negative effects which the implementation of a project by an undertaking and the resulting jobs created may have an existing staff, and express conditions are sometimes included for this purpose in the national decisions granting aid.

Such analyses are, however, difficult to undertake and are not well documented, and it is hard to apply counter-measures outside the concerns of the same firm or group, which considerably limits their scope.

The approach in this field is, moreover, not the same from one Member State to the next: the differences found were considerable. Audit visits showed that in

France there was a tendency to take into consideration, as far as possible, all the staff of the companies which receive aid, whereas other countries such as Germany, Italy and the United Kingdom kept more closely to those staff whose work was connected with the subsidized investment.

3.2.5. A large part of the aid granted by the ERDF is for the reorganization of undertakings, which frequently occurs in periods of economic crisis and within the context of which the question of maintaining jobs always arises.

The precarious situation of the jobs to be maintained usually results from the fact that the undertaking to be reorganized is legally bankrupt or in receivership. But firms suffering from serious financial difficulties, lack of profitability or a need to adapt to competition are treated as being in the same situation, which leads to a more flexible concept of 'maintaining' jobs, but one which is also more difficult to supervise.

A consistent application of the Fund Regulation requires avoiding the granting of aid to 'maintain' jobs that are not strictly threatened. Furthermore, it is clear that the security of the 'maintained' jobs should also be adequately ensured.

3.3. How and by whom are the jobs certified?

3.3.1. There are fundamental differences between the Member States with regard to the authority which certifies the creation or maintenance of jobs.

In France certification is by a public authority — the 'Inspection du travail' — and is on the basis of the payrolls of the undertaking concerned, normally indicating the number of jobs at the beginning and end of the project.

In Italy, it is the statements of final acceptance of the projects, drawn up after discussion between the administration and the beneficiary of the investment, which record the number of jobs that this beneficiary declares to have created or maintained, having regard to the conditions which must be fulfilled in order to benefit from Community aid.

In most of the other countries, certification is by the undertakings themselves, which also determine the

form and content thereof. In Germany, it is customary for undertakings, particularly the larger ones, to use the services of auditors or private bodies specialized in the certification of financial, administrative or commercial statements.

3.3.2. All such certificates that are not produced by a public authority can in theory be checked by inspectors from the departments of industry, employment or social security. The audits of the Court in the Member States showed that such checks, not the least because of the practical difficulties involved, were fairly exceptional and the experience of the Court of Auditors suggests that the administrations responsible for settling the aid payments rely largely on the certificates submitted to them.

Clearly, the difficulty of checking such statements, and the absence of any rules on the content of the documents or on the authorities responsible for issuing them, make the value of certification somewhat uncertain.

3.4. When are the numbers of jobs verified?

3.4.1. In order to establish the number of jobs created or maintained, it is necessary to determine the number of staff not only at the end of the investment programme, but also at the beginning of the project, at least in the case of the extension or reorganization of undertakings.

3.4.2. The initial staff should mean those taken into account at the commencement of the investment programme, but neither the Community nor the national rules define exactly the date or the period to which reference is to be made. Only in Germany, in the case of the extension of an undertaking, are there precise rules on the method of calculating the number of reference jobs, on the basis of the average level recorded during the two previous years of the project. Nevertheless, the undertaking may adopt a lower figure, as long as it can show that such reduction reflects a structural change.

In most of the Member States, the number usually adopted by undertakings is the lowest recorded during the initial period of the investment.

This method is significant, since, in the weeks or months preceding the investment, the number of jobs may have been subject to changes which, even if not deliberately caused for this purpose, have the

effect of producing an initial staff figure different to the average number of staff employed in the undertaking.

3.4.3. A similar problem arises in determining the numbers of staff at the end of the project. Although most often the decisions to grant aid set a date by which the process of creating or maintaining the jobs must be complete, a very lenient attitude is adopted in most countries to observance of the time limit.

The firms concerned thus obtain in most cases an extension of the time limit *de jure* (by means of a rider to the initial decision granting the aid) or *de facto* (by keeping the files pending) in the hope of a later improvement that will make it possible to achieve the planned objectives. It is not unusual to find files whose closure has been delayed sometimes for more than two years.

It is also not unusual, where the number of jobs which it was planned to create has not been reached, for the initial staff numbers to be re-calculated. The result is usually to reduce this figure by several units and consequently increase the number of new jobs.

3.4.4. The legislation in force in certain Member States provides that, in order to be eligible, the jobs created or maintained must be of a permanent nature — this condition is only an implied requirement in the ERDF Regulation.

On several occasions, cases were found of firms which, on the completion of a subsidized investment programme, had fulfilled their commitments in respect of jobs, but later experienced a — sometimes considerable — reduction in staff, which partially undermined the results obtained.

In France, recent legislation requires that the jobs created or maintained must continue for at least two years and checks are carried out two years after completion of the projects. In Italy, the number of staff planned for the normal operation of the installation, as indicated in the decision to grant aid, must be maintained for a period of no less than five years.

In Germany, the administration may exercise its right of inspection during the five years following completion of the work, but the fact that in that country, a post, whether occupied or not, is consid-

ered a job, limits the impact of such controls, at least with regard to the number of jobs.

3.5. Penalties for failure to achieve the number of jobs forecast

3.5.1. The on-the-spot audits undertaken by the Court of Auditors in the Member States are still limited in number and the findings to which they lead are perhaps not representative of the overall situation regarding the gap between forecasts and achievements.

With this reservation, they do show that about half the jobs that it is planned to create or maintain are not achieved within the stipulated time limits. In any case, the number of jobs created or maintained is often lower than the forecasts given in the requests for aid, which are examined both at national and Community level before the aid is granted.

The national departments explained that this shortfall was due to the influence of the recession as well as to the difficulty of making valid forecasts in respect of employment. They stated that an improvement in the economy could nonetheless render achievement of the planned objective possible at a later date, and that in any event the increase in investments, yield and productivity in the assisted regions was at least as important as immediate results in respect of employment, since any long-term improvement in the employment situation in these regions involves the extension and modernization of their base.

3.5.2. This view is in the first place incompatible with the provisions in the ERDF Regulation that expressly link the granting of aid to industrial investment and the creation or maintenance of a minimum number of jobs. It is clear that the project ceases to be eligible, in whole or (in some cases) in

part, when the conditions laid down by the Regulation are not fulfilled.

Aside from observance of the regulations however, the job forecasts are an essential factor in the evaluation and selection of the investments subsidized, certain projects being preferred to others because of their anticipated effects on employment.

Therefore, the considerable gap between forecasts and actual results means that the anticipated effect of the investment on employment, which was one of the main reasons for granting the aid, has been only partially achieved and in such a case the question arises whether the aid to such projects should be maintained in full or in part.

3.5.3. This aid should only be maintained, if at all, by a new decision, after re-examination of the project, amending the initial decision.

This procedure is sometimes applied in the Member States, but never at Community level, where, subject to observance of the minimum number of jobs required by the Regulation and the aid ceilings per job created or maintained, the aid provided for is paid in full, up to a limit of 50 % of the national aid, even if the objectives in respect of jobs have been achieved only to a very small extent.

3.5.4. It is clear that any significant discrepancy between the jobs forecast and the results actually achieved should be penalized in respect of payment of the aid, in so far as one of the basic grounds for granting the aid is lacking.

The lack of any real sanction favours the submission of careless or even exaggerated forecasts designed to give a favourable impression when the request for aid is examined, no serious effort necessarily being demanded to ensure that they are realized.

PART FOUR

CONCLUSIONS

4.1. The present Community legislation gives virtually no indications as to who it is that the Community wishes to aid (weak sectors that are in difficulty and require urgent rationalization and reorganization to safeguard jobs in the future, or, on the

contrary, future growth sectors, etc. . .). Neither does it allow identification of the funds to be allocated to each sector chosen, a feature which is not conducive to the clarity of the system.

By reducing the cost of capital, aid to the investment may have the effect of reinforcing the tendency of substitute capital for labour. Even where the aid to the investment has in turn been attuned to the requirements of job creation or maintenance, its efficiency in this regard remains difficult to establish, particularly where both a quantitative and qualitative assessment of its impact is to be made.

In addition to the obstacle created by poor methods of forecasting, problems are caused by the diversity of national rules and different methods of application in a system where the ERDF financing does not represent the major share of public aid allocated to regional investments.

The undoubtedly difficult task of monitoring the effect of the investments financed by the ERDF on employment would clearly benefit from greater clarity in the system.

4.2. Instead of assessing the number of jobs, it would be more accurate to consider the number of persons who would be employed on completion of the project or even the net balance of jobs after the investment.

Some posts may in fact have been eliminated at the same time as those stated to have been created or about to be created; furthermore, some of the new jobs may have gone to workers from other departments.

The investments may result in jobs which are of varying permanency, with different requirements as to staff qualifications. The working conditions in the undertaking and the division of labour may have been considerably altered by the project.

Moreover, in a number of cases, the desire to create or maintain jobs must give way before the necessities of preserving the undertaking, since technological and economic developments may in fact mean that to establish or regain its competitive position, a firm or a sector of activity will have to shed jobs.

The practical effect of such difficulties must be taken into consideration by all bodies concerned with establishing a closer check on the results achieved by the investments subsidized in terms of employment. There is little likelihood of any fundamental improvement in this direction.

4.3. Some progress could nevertheless be made by reducing the number of deficiencies and variations found in the statutory definitions of employment, its rate of growth and its permanence. It is also important to specify the extent of the obligation to create or maintain a job upon which grant of the aid depends.

In most countries the methods of determining the results achieved in terms of employment could be appreciably improved so as to show the actual extent of the gap between forecasts and results, the reason for it and its influence on the payment of the aid.

4.4. At Community level, it would appear essential that greater efforts be made to encourage a gradual improvement in the practices of the Member States in examining questions of employment.

Any such progress in the evaluation of job forecasts and achievements should not be confined to each individual investment, but should also cover the overall effect on the programme or their component parts.

The above comments were adopted by the Court of Auditors at its meeting of 30 July 1982.

Luxembourg, 4 August 1982.

For the Court of Auditors
Pierre LELONG
President

THE COMMISSION'S ANSWERS**to the Court of Auditors' special report on job creation or maintenance in the granting of aid to regional investments**

1. The Commission notes that the points made by the Court in this special report bear in the main on the implications of the differences in the methods of applying national rules for granting aid according to the employment situation. Where the Court's remarks also concern some of the rules governing ERDF operations, the Commission hereafter refers to the amendments to the rules that it presented to the Council on 26 October 1981.

Relations between the ERDF and the national systems of regional aid (point 1.3)

2. One of the features of the ERDF is that its contributions, at least from the 'quota' section, go to support regional policy measures taken at national level. The Member States' detailed rules for applying regional aid systems, on which the ERDF rules are superimposed, are therefore by definition adopted by each country (point 1.3.1).

3. It is true that the rules for applying these national systems do not all involve employment to the same degree. Some systems are based on investment (point 1.3.2), some on employment (point 1.3.3) and others on both (point 1.3.4). As the Court itself points out (point 1.3.2.4), even in the systems based on investment, employment in the regions concerned always receives tacit consideration.

There would therefore appear to be no real need to harmonize implementing rules at Community level. As the initial responsibility for regional policy lies with the Member States, the Commission's role consists of helping to coordinate and guide regional policies.

4. The proposal for amending the ERDF Regulation, which the Commission presented to the Council on 26 October 1981 provides in fact for more forceful action to coordinate the aims of regional policies with the aim of promoting in the long run the convergence of Member States' economies. It would also give more scope for directing Member States' regional policies, particularly with the financing of State aid schemes for industrial, craft and services projects. This increased involvement does not, however, imply harmonization of national rules for applying regional policy measures (point 4.3).

Effectiveness of the rules in influencing employment (points 2.1, 2.2 and 2.3)

5. The Commission agrees with the Court that the real impact of investment aid depends on the economic and financial context of the business and on the array of measures applied by the public authorities to promote development (point 2.1.2) and that the influence of the investment on employment cannot be judged solely by the number of jobs immediately created but also by the durability of the jobs and the stimulus provided by the assisted investments (point 2.1.7).

The system of financing programmes set out in the proposal amending the ERDF Regulation, which was put to the Council on 26 October 1981, would gradually replace the system of finan-

cing specific projects, thereby affording a clearer overall picture of ERDF operations and consequently of the total impact on employment (point 4.4).

6. There can be no doubt, as the Court indeed shows (point 2.2 and, in particular, points 2.2.4 to 2.2.6), that forecasting the number of jobs maintained or created either at micro-economic, i.e. company level or in more general, i.e. sectoral or regional, terms is a hazardous exercise because of the many uncertainties involved. So in the present economic circumstances it is no surprise to find that it takes longer than expected for firms to start up and for jobs actually to be filled and that the number of jobs never actually reaches the initial forecast.

7. Concerning the requirement that a minimum number of jobs be created or maintained (point 2.3), which — as the Court points out — runs counter to the desire to boost the employment potential of small and medium-sized businesses (point 2.3.3), the threshold of 10 jobs per investment stipulated in Article 4 (1) (a) of the current ERDF Regulation has been dropped in the abovementioned proposal for amendment, which moreover provides for a series of new projects in favour of small and medium-sized businesses as part of the arrangements for financing operations aimed at exploiting the inherent development potential of the regions.

Methods of determining the results achieved in respect of employment (points 3.1 to 3.5)

8. In the sixth annual ERDF report the Commission itself pointed out that the differences found in national legislation (points 3.1 to 3.3) — particularly with respect to the national authority which certifies the creation or maintenance of jobs (point 3.3) — do not always make it easy to determine in on-the-spot checks whether the provisions of the ERDF Regulation on job creation or maintenance have been respected. But the Commission at the same time pointed out that this was not in itself a major obstacle to the audit. All such certificates; whether they are issued by a public authority or by the firm itself, can be checked during visits, usually by checking the payroll. This is also a way of determining the net balance of jobs after the ERDF-assisted investment and thus of finding how many jobs have been created or maintained in the firm (points 3.4 and 4.2).

9. In view of the uncertainties — recognized by the Court itself (point 2.2) — involved in any forecasts about jobs, the Commission cannot go along with the Court's suggestion that penalties in the form of reductions in ERDF aid be imposed for failure to achieve the number of jobs forecast (point 3.5). The Commission does not reduce aid in cases where the expected effects on employment are not fully achieved, provided, however, that an assisted investment was implemented as planned and that all the conditions imposed by the ERDF Regulation (particularly the limits set in Article 4 (1) (a) and (2) (a) are fulfilled (see also point 7 above).

10. But in order to ensure that jobs created will be permanent — only an implied requirement in the current ERDF Regulation (point 3.4.4) — the Commission's proposal to the Council of 26 October 1981 stipulates that Member States must, within three years of completion of the industrial, craft or services projects financed by the Fund, inform the Commission of the number of jobs created.

Conclusions

11. The points raised by the Court bear by definition on a system for financing individual projects and consequently on the role played by the criterion of job creation or maintenance in such a system.

In its proposal of 26 October 1981 the Commission, besides redefining the objectives of Community regional policy, made basic changes in the Fund's operating rules designed to enhance its impact on job creation and to boost its effectiveness. As indicated above, the Commission has proposed that with the exception of investment projects costing more than 40 million ECU the system of financing individual projects be gradually replaced by a system of financing programmes covering State aid schemes for industrial, craft or services projects, the purpose of such a system being to focus these schemes more sharply on the most pressing needs of the regions.

Clearly some of the points made by the Court, particularly as regards the uncertainties of forecasting, are no less relevant to this wider approach proposed by the Commission. But equally clearly this wider approach, also part of the design to secure closer coordination of regional policies, will not only enable the Commission to guide ERDF operations more effectively but also afford it a clearer overall picture of the impact of these operations, particularly on employment.

The ERDF's prime objective being to help in creating jobs, several new provisions in the above-mentioned proposal for amendments demonstrate the Commission's concern to ensure that the Fund's operations have an effect, and a lasting effect, on employment. Examples are the new provisions concerning the reports on implementation of regional development programmes, which the Member States are required to make each year to the Commission and which must quantify the results of the regional project in terms of investments and jobs, and the conditions mentioned in point 10, which require the Member States, within three years of completion of projects financed by the Fund, to inform the Commission of the number of jobs actually created in industrial, craft or service activities by means of ERDF-assisted investments.

Sales and subscription offices	National currencies	Annual subscription			Price per single copy		
		'L + C' (calendar year) 1982	OJ Supplement (Notices and public contracts) calendar year 1982	'Annex — Debates' (March 1982-February 1983)	1 - 32 pages	33 - 80 pages	81 or more pages
UNITED KINGDOM H. M. Stationery Office — P.O. Box 569 London SE1 9NH — Tel. 01-928 69 77, ext. 365 National Giro account No 582-1002	£	87.00	39.00	29.00	0.90	1.80	
BELGIUM Moniteur belge — 40-42, rue de Louvain 1000 Bruxelles — Belgisch Staatsblad — Leuvense- straat 40-42 — 1000 Brussel — Postal cheque account: 000-200 5502-27 — Tel. 512 00 26	Bfrs	6 000,—	2 700,—	2 000,—	60,—	120,—	
DENMARK J. H. Schultz — Boghandel — Møntergade 19 DK 1116 København K — Tel. (01) 14-11-95	Dkr	1 155,—	515,—	386,—	11,60	23,20	
FRANCE Service de vente en France des publications des Communautés européennes — Journal officiel 26, rue Desaix — 75732 Paris Cedex 15 Tel. 5 78 61 39 — Postal cheque account: Paris 23-96	FF	900,—	400,—	300,—	9,—	18,—	
GERMANY Bundesanzeiger — 5000 Köln 1 — Breite Straße Tel. (02 21) 20 29-0 Postfach 108/006 Telex: Anzeiger Bonn 08 882 595 Postal cheque account: 83 400-502 Köln	DM	360,—	160,—	120,—	3,60	7,20	
GREECE 1. Ethnico Typografio Kapodistriou 34 — Athens 2. G. C. Eleftheroudakis Ltd 4 Nikis Street — Athens 126 Tel. (01) 322 22 55 — Telex 219410 elef gr	Dr	9 050,—	4 050,—	3 030,—	90,—	180,—	
IRELAND Govt. Publications, Sales Office, GPO Arcade, Dublin 1 <i>or by post from</i> Stationery Office, Dublin 4 — Tel. 78 96 44	£ Irl	100.00	45.00	33.60	1.00	2.00	
ITALY Istituto Poligrafico e Zecca dello Stato Libreria dello Stato, piazza G. Verdi 10 — 00100 Roma Tel. (06) 85 08 22 76 — 85 08 22 21 CCP: 38 70 01 — Telex IPZSRO 611 008	Lit	190 000	84 600	63 500	1 900	3 800	
LUXEMBOURG Subscriptions to the OJ may be arranged and paid for at Post Offices <i>Sale of single copies*</i>	Lfrs	6 000,—	2 700,—	2 000,—	60,—	120,—	
NETHERLANDS Staatsdrukkerij- en Uitgeverijbedrijf Christoffel Plantijnstraat — The Hague Tel. (070) 78 99 11 — Postal cheque account: 42 53 00	Fl	395,—	180,—	132,—	4,—	8,—	
OTHER COUNTRIES <i>Subscriptions and sale of single copies*</i>	Bfrs	6 000,—	2 700,—	2 000,—	60,—	120,—	

Price determined according to each case and printed on cover

* Office for Official Publications of the European Communities — Tel. 49 00 81
L-2985 Luxembourg — Postal cheque account: 19 190-81 — Bank current account: B.I.L. 8-109/6003/200

Special mailing charges are invoiced separately. Other European Communities' publications on sale, whether periodical or otherwise, may be obtained at the abovementioned offices. Price lists sent free on request.

OFFICE FOR OFFICIAL PUBLICATIONS OF THE EUROPEAN COMMUNITIES — L-2985 LUXEMBOURG