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(Information)

COURT OF AUDITORS

SPECIAL REPORT No 2/86

(Observations pursuant to Article 206a (4) of the EEC Treaty)

on the ERDF's specific Community regional development measures (non-quota measures)
accompanied by the Commission's replies

(86/C 262/01)

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1. INTRODUCTION

1.1. The specific Community regional development measures, commonly known as 'non-quota measures', were instituted by Council Regulation (EEC) No 214/79 of 6 February 1979(*)⁽¹⁾. This regulation amended Council Regulation (EEC) No 724/75 of 18 March 1975⁽²⁾ establishing the European Regional Development Fund (ERDF) and, with the aim of diversifying the assistance from the Fund, it laid down that, in addition to supporting regional policy measures taken by the Member States (quota measures), the ERDF could finance specific Community regional development measures.

1.2. These measures are linked with Community policies and measures in order to take better account of their regional dimension or to reduce their regional consequences. In exceptional cases, they may also be intended to meet the structural consequences of particularly serious occurrences in certain regions or areas with a view to replacing jobs lost or creating infrastructures. They may not have as their object the internal reorganisation of declining sectors but may, by establishing new economic activities, promote the creation of alternative employment in regions or areas in a difficult situation.

1.3. Regulation (EEC) No 214/79 also laid down the general framework for the adoption and implementation of these measures. For each of them, it is the Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament, that determines, in a specific regulation, the nature of the financial operations, the eligible areas and regions, the national public aid taken into consideration in granting Fund assistance, the contribution of the Fund, the categories of beneficiaries and the detailed rules for financing.

1.4. The amount of Fund assistance, as a proportion of the total, varies according to the category of operation planned. It generally amounts to 50 % of the eligible national expenditure for infrastructure investments and 70 % for expenditure relating to aid and services for craft industries and small and medium-sized undertakings incurred after the date on which the regulations came into force. The Community aid is paid to the Member State concerned or in accordance with the latter's instructions. Provision is also made for

preventing the ERDF's quota and non-quota aid measures being combined and for coordinating national and Community financial instruments.

1.5. The measures are implemented in the form of special programmes which the Member States concerned submit to the Commission for approval with a view to the granting of aid. They are financed jointly by the Community and the Member States in question and the regulation lays down that the amount of Community appropriations allotted to these measures shall be equivalent to 5 % of the Fund's resources.

1.6. The aim of this report is to describe the situation of the non-quota measures as at 31 December 1985. It consists of four parts devoted to the main stages of preparing and carrying out the non-quota measures; they cover, in turn, the regulations setting up these measures, the special programmes drawn up for their implementation, the financial execution of the measures and the annual progress reports submitted by the Member States.

2. THE REGULATIONS INSTITUTING THE NON-QUOTA MEASURES

The three series of regulations laid down by the Council

2.1. By 31 December 1985, the three series of regulations instituting the non-quota measures had been laid down by the Council. Since the end of 1985, there has no longer been any legal basis⁽³⁾ for instituting new measures, but those previously decided on must be completed or implemented in accordance with the regulations specified in paragraphs 2.2 — 2.6 below. Moreover, the new ERDF Regulation (EEC) No 1787/84 provides for Community programmes which are to take the place of the non-quota measures.

The regulations of 7 October 1980

2.2. On 7 October 1980, following the proposals put forward by the Commission on 16 October 1979, the Council laid down a first series of five regulations [(EEC) Nos 2615/80 to 2619/80]⁽⁴⁾ instituting the following five specific Community measures:

- (a) development of certain French and Italian regions in the context of Community enlargement;

(*) The footnotes appear together at the end of the report.

- (b) overcoming constraints on the development of new economic activities in certain zones of Belgium, Italy and the United Kingdom adversely affected by the restructuring of the steel industry;
- (c) overcoming constraints on the development of new economic activities in certain zones of the United Kingdom adversely affected by the restructuring of the shipbuilding industry;
- (d) improving security of energy supply in certain Italian regions by way of improved use of new techniques for hydro-electrical power and alternative energy sources;
- (e) improvement of the economic and social situation of the border areas of Ireland and Northern Ireland.

2.3. Taking into account the various Member States concerned, these regulations set up a total of nine special programmes involving a total estimated contribution on the part of the Community of 220 Mio ECU. The duration of these special programmes was specified as five years, starting from the 60th day after the date on which the regulations entered into force, i.e. until 15 December 1985.

The regulations of 18 January 1984

2.4. The six new proposals put forward by the Commission on 19 November 1982 led to the adoption by the Council on 18 January 1984 of a second series of regulations [(EEC) Nos 214/84 to 219/84]⁽⁵⁾ which either amended some of the previous regulations or instituted new measures, as specified below:

- (a) amendment of the 'enlargement' measure in order to strengthen and supplement the planned system of aid;
- (b) institution of a measure contributing to the development of certain regions of Greece in the context of enlargement;
- (c) amendment of the 'steel industry' measure in order to strengthen and supplement the system of aid and to extend it to new zones in Belgium, the FR of Germany, France, Luxembourg and the United Kingdom and to other zones yet to be defined in connection with the programmes for restructuring the steel industry;
- (d) amendment of the 'shipbuilding industry' measure in order to strengthen and supplement the system of aid and extend it to new zones in the FR of Germany;
- (e) amendment of the 'energy' measure in order to strengthen and supplement the system of aid and extend it to new zones in Greece;
- (f) institution of a measure to help to overcome constraints on the development of new economic activities in certain zones adversely affected by the restructuring of the textile and clothing industry in Belgium, France, Ireland, Italy, the Netherlands and the United Kingdom.

2.5. The Community's estimated contribution for this second series of regulations is 724 Mio ECU and it covers 25 special programmes which will expire on 1 April 1989. The time-limit for carrying out the programmes provided for by the previous Council regulations of 7 October 1980 was also extended until 1 April 1989, except for the regulation relating to the border areas of Ireland and Northern Ireland. The latter was amended only by the regulations of 17 December 1985, which extended the period of time for carrying out the programmes until 25 February 1991.

The regulations of 17 December 1985

2.6. A third series of proposals was submitted by the Commission to the Council on 21 December 1984. Since the regulation providing the basis for the Council's adoption of this third series of measures no longer applied as of 1 January 1985, as a result of the entry into force of the new Fund Regulation (EEC) No 1787/84, it was only after the latter had been amended that the Council adopted the third series of regulations⁽⁶⁾, on 17 December 1985. These relate to 10 special programmes, due to expire on 25 February 1991, and involve an estimated Community contribution of 144 Mio ECU; their effect is to:

- (a) extend the 'shipbuilding industry' measure to new zones in the FR of Germany, France and Italy;
- (b) extend the 'textile and clothing industry' measure to new zones in the FR of Germany;
- (c) amend the 'border areas' measure in order to strengthen and supplement the system of aid and extend it to new districts in Ireland and Northern Ireland;
- (d) institute a measure contributing to the development of new economic activities in certain zones in Denmark, the FR of Germany, France and the United Kingdom affected by the implementation of the Community fisheries policy.

Observations

Changes in the content of the regulations

2.7. Seen as a whole, the main feature of these series of successive regulations is a considerable extension of the zones in question, the types of operation eligible for aid and the time-limits for implementing the special programmes.

2.8. The 'steel industry' measure, initially instituted in certain regions in Belgium, Italy and the United Kingdom, has been extended to other zones in the United Kingdom, the FR of Germany, France and Luxembourg and to other zones yet to be defined in connection with the programmes for restructuring the steel industry; the number of categories of operation eligible has risen from six to nine. A similar trend can be seen for the 'shipbuilding industry' and the 'border areas' measures; in the latter case, the number of categories of eligible operations has been increased from seven to fifteen.

2.9. At the same time, however, it has proved difficult to carry out the measures decided on initially and, in the majority of cases, the part of the programmes which had been carried out by the end of 1985 still fell far short of what had been forecast (for more details, see paragraphs 4.1 — 4.9 below). This situation has resulted in the extension of the time-limits set by the first series of regulations for the implementation of the programmes; the amending regulations adopted in 1984 and 1985 extended these time-limits from the end of 1985 to 1989, and even to 1991.

The amount of the Community's estimated contribution

2.10. The estimated Community contribution to each special programme, each measure or each series of measures is not formally stated in a specific document. In the case of the measures decided on in 1984 and 1985, the Commission's estimates, which were included in the explanatory memorandum accompanying its proposals, were subsequently amended when these regulations were being adopted by the Council, but the final estimates were not set out in a document. Since they are an important element of the financial programme, it would be appropriate for the estimates to be set out in a specific document.

Entering of commitments in the accounts

2.11. In the first series of Council regulations adopted on 7 October 1980, it was laid down in Article 5 (5) that budgetary commitments relating to the implementation of the special programmes were to be decided by annual tranche in accordance with progress made. The second and third series of regulations of 18 January 1984 and 17 December 1985 specified that, both for the new measures and for the earlier measures still to be

completed, the first tranche was to be committed at the time of the Commission's acceptance of the special programme and the commitment of subsequent annual tranches was to be made according to budgetary availability and progress made on the programmes.

2.12. The data in the Commission's accounting documents do not therefore constitute a record of the total expenditure to be provided for for the implementation of the special programmes, but only of the annual tranches, so that the information contained in them is incomplete. Once the special programmes have been approved — and a decision has thus been taken to grant Community aid — the corresponding estimate of total expenditure should be given in the financial documentation.

2.13. It is all the more necessary to review the arrangements in question as the new Fund Regulation extends their field of application to cover all the financing for each programme, including national programmes of Community interest. So there are grounds for expecting an increase in the number of programmes approved without any estimates of the corresponding expenditure being recorded in the financial documentation.

The arrangements for paying the aid

2.14. The 1980 regulations laid down that 'on production by the Member State concerned of written evidence that the special programme has already occasioned expenditure under an annual tranche, the Fund may, at the State's request, make an advance of 30% of the appropriations committed'. When the amount of this advance has been exhausted and when the Member State has forwarded to the Commission a statement certifying the operation and the existence of detailed supporting documents⁽⁷⁾, further successive advance payments may be made, each of 30% of the appropriations committed for each annual tranche.

2.15. The 1984 and 1985 regulations amended these provisions. For the new measures, as well as for the earlier measures still to be completed, they provide that from the beginning of operations an advance of 60% of the contribution concerning the first annual tranche may be granted, according to progress made with the operations and budgetary availability. When the Member State has certified that half of the first advance has been spent, a second advance, of 25%, may be paid. For the subsequent annual tranches, advances may be paid under the same terms as soon as operations have commenced. The balance of each annual tranche is 'paid at the request of the Member State when it has certified that the operations corresponding to the tranche in question may be considered finished, and on presentation of the amount of public expenditure which had been committed'.

2.16. The payment arrangements therefore make extensive use of the payment of advances and of global certificates provided by the Member States. Even for the purpose of settling the balances, however, these certificates involve a considerable degree of inaccuracy.

2.17. As things stand at present, the practice of paying large advances has not accelerated the implementation of the programmes, and the rate at which they are being implemented is still inadequate (for further details, see paragraphs 4.1 — 4.9 below).

2.18. Moreover, in a system of global certificates such as this, it is essential for the Commission to make the maximum use of the possibilities at its disposal, especially the Member States' annual reports, so as to check more thoroughly on the way the programmes are being carried out. As will be seen further on, however, maximum use of these possibilities is still far from being the case.

2.19. In view of the complexity of the measures and the major role played by the national and local authorities in their management, the administrations

concerned ought to have made a greater effort to inform and instruct potential beneficiaries, in order to ensure correct interpretation of the regulations' aims and methods.

3. THE SPECIAL PROGRAMMES COVERED BY THE NON-QUOTA MEASURES

The approved programmes

3.1. The non-quota measures are implemented in the form of special programmes submitted by the Member States to the Commission. These are approved by the Commission after it has consulted the Fund Committee. The programmes contain an analysis of the situation and of the needs relating to the objectives of the measures, the operations proposed, the timetable for carrying them out, and, in general, all factors necessary to enable the programmes' consistency with regional development objectives to be assessed.

The programmes of the first series

3.2. In the context of the first series of non-quota measures, eight special programmes were approved by the Commission (see *Table 1*).

Table 1

Approved programmes of the first series

Date	Country	Subject	(Mio ECU)
			Amount
10 June 1981	France	Enlargement	55
10 June 1981	Ireland	Border areas	16
10 June 1981	United Kingdom	Border areas	8
10 June 1981	Italy	Energy	16
3 December 1981	Italy	Enlargement	65
17 December 1981	Belgium	Steel industry zones	6
29 April 1982	United Kingdom	Steel industry zones	33
20 July 1982	United Kingdom	Shipbuilding industry zones	17
		Total	216

3.3. A ninth special programme, costing 4 Mio ECU, for the steel industry zone of Naples, which was submitted by the Member State to the Commission in March 1984, had not yet been approved by 31 December 1985 and was in the process of being appraised.

The programmes of the second series

3.4. For the second series of measures, the Commission approved 10 special programmes (see Table 2).

Table 2

Approved programmes of the second series

(Mio ECU)			
Date	Country	Subject	Amount
21 December 1984	Greece	Enlargement	40
21 December 1984	United Kingdom	Steel industry zones	33
21 December 1984	FR of Germany	Steel industry zones I	13
21 December 1984	United Kingdom	Shipbuilding industry zones	17
21 December 1984	Greece	Energy	20
21 December 1984	United Kingdom	Textile industry zones	105
21 December 1984	Netherlands	Textile industry zones	7
18 November 1985	FR of Germany	Steel industry zones II	31
18 November 1985	FR of Germany	Shipbuilding industry zones	3
18 November 1985	Netherlands	Steel industry zones	5
		Total	274

3.5. At 31 December 1985, about 10 other special programmes for Belgium, France, Italy and Luxembourg were under consideration and were being appraised. At the same date, the Commission had still not taken a decision on the adaptation of former programmes, as provided for by the regulations of 18 January 1984.

Observations

3.6. The audit investigations carried out by the Court of Auditors on the basis of records and on the spot have given rise to the following observations, the first three of which are general in content, whilst the others deal with certain special programmes.

The content of the programmes

3.7. Even though the annexes to the Council regulations specify which information the special programmes must contain, the volume of information required is so great that the documents submitted are still not concise enough. They include lengthy descriptions of the difficulties prevailing in the regions and in the sectors of operation in question. They often fail, however, to provide a clear definition of the type of operations to be subsidised and the conditions under which they are being carried out, and the objectives, in terms of the contribution to development, are seldom expressed as quantities. The very essence of any programme of this kind, however, is to specify the type of aid measure and the conditions under which the measures are to be implemented, in relation to the exact aims to be achieved.

3.8. Simplifying the way the programmes are presented should enable them to focus more on the operational aspects, such as defining and executing the planned operations, and on the results or lessons that these operations are supposed to lead to in terms of development, in the light of the objectives stated in the regulations.

3.9. In this respect, the programmes of the second series show little evidence of progress. The documents still vary too much from one programme to another and even from one area to another within the same programme. For example, regarding the development of derelict sites under the 'steel industry zones' measure, the United Kingdom programme specifies which buildings or complexes are to be developed, whereas the German programme approved on the same day only gives a general description of the projects. Under the 'textile industry zones' measure in the Netherlands, this information is provided for the region of Twente but not for that of Helmond. These disparities reflect an unequal degree of preparation of the various programmes or of their constituent parts.

Forecasts of the programmes' impact on employment

3.10. Although the way it is expressed varies from one measure to another, all the regulations instituting the non-quota measures agree that the chief objective of the special programmes is to develop activities that generate employment. The annexes to the regulations state furthermore that the special programmes must include 'a description, as far as possible with figures, of the objectives covered by the special programme, particularly regarding employment'.

3.11. Nevertheless, this quantified description of the employment objectives is usually lacking in the programmes themselves, which, particularly in the case of the 'enlargement-France' programme, emphasise the methodological and interpretative difficulties encountered when drawing up target figures of this kind.

3.12. Even where a forecast in figures was available, as in the case of the 'enlargement-Italy' programme, which assesses the increase in jobs expected from the measure as 'about 1 000 units per year', it proved to be an estimate which was not based on any analysis. The document itself points out that the effects of the operations on employment can be very varied in terms of both quality and quantity and the time taken to complete them.

3.13. The United Kingdom programmes (steel industry, shipbuilding and textiles) consider that, on average, 100 m² of developed site can support three jobs and this is the basis on which they evaluate the expected number of jobs created. In fact, this hypothesis presupposes full use of the developed sites and is based more on the potential use of the premises than on actual job forecasts.

The publication of the programmes

3.14. The Council Regulations of 7 October 1980 state in Article 3 (8) that 'once it has been approved by the Commission, the special programme shall be published for information in the *Official Journal of the European Communities*'.

3.15. The programmes have never been published in the *Official Journal*, mainly because of the huge amount of work involved in translating these lengthy documents (a total of 757 pages for the programmes of the first series, plus 134 pages of annexes) into all the Community languages.

3.16. Now, the regulations of 18 January 1984 could be taken to sanction a simplified form of publication,

perhaps in the form of brochures and only in certain languages. They amended the text of Article 3 (8) (except in the case of the 'steel industry zones' measure, the regulation for which, probably through an oversight, was not amended in this respect) and they provided that 'once it has been approved, the special programme shall be published for information by the Commission'. This provision has likewise never in fact been applied: the special programmes exist solely in the form of internal documents and have not been published at all. The Commission, which is rightly concerned about how much publicity should be given to the Fund's aid measures, ought to ensure that the special programmes are published in a suitable manner.

The 'enlargement-France' programme

3.17. The 'enlargement' programme for the French regions allocates half the finance to aids and services for small and medium-sized undertakings and half to the promotion of innovation, craft industries and rural tourism. The document gives a very detailed account of the situation, the desired effects and the systems of aid available in the areas of assistance covered by the non-quota measure.

3.18. This programme does not, however, specify any quantitative targets to be achieved and does not make it possible to define the individual projects which are to be assisted. It basically describes the methods to be used in the planned measures, and the assisted operations can therefore be identified only by means of indicative surveys to be carried out on the spot.

3.19. Problems have thus been encountered in making available the Community aid granted for financing this programme, especially as regards justifying the actual use made of the aid. In a report sent to the Court of Auditors of the European Communities on 18 October 1985, the French Court of Auditors pointed out these difficulties and said that the setting up, as of 1984, of specific budget headings for each Member State ought to make it possible to eliminate some of the drawbacks inherent in previous practices.

The 'enlargement and energy-Italy' programmes

3.20. The 'enlargement' programme for the Italian regions is in fact restricted to 1981. For the subsequent period, the programme was conceived as an 'open structure', in the sense that it merely divides up the planned aid between the different groups of operations, without specifying the location or precise nature of the latter. The intention in designing the programme in this way was to give the regions the possibility of participating

to a greater extent in initiatives subsequent to 1981; this design, however, is contrary to Article 3 (4) of the regulation instituting the specific measure, which states that the programme must describe the operations proposed and the timetable for carrying them out. It has also considerably reduced the programme's operational nature.

3.21. The programme presented for the 'energy' measure in Italy is more complete. About 45 % of the expenditure is for carrying out 34 projects for using biogas, 26 % is allocated to the construction or rebuilding of 11 small hydro-electric power-stations, 22 % to wind energy and 7 % to minor water resources.

3.22. An on-the-spot audit by the Court in 1984 nevertheless revealed considerable internal difficulties connected with the basically indicative aspect of the programme, which was drawn up without all the conditions for its implementation having been settled at national level. For several series of operations, in fact, no decision by the programme's management body to allow the projects to receive the financing provided for by the measure had yet been made. Some of these projects are moreover ineligible because they are located outside the mountain areas defined in Article 2 of the regulation.

3.23. The projects already under way were therefore being carried out without having yet obtained any Community financing, and for this programme as well as for the 'enlargement' programme, the advance which the Member State had received from the Fund (i.e. 1,5 and 4,8 Mio ECU respectively) remained frozen in the national Treasury accounts. A situation of this kind weakens the incentive effect of the aid for the recipient, who has to undertake the projects without advances of funds being available to him and without even being sure that he will eventually receive Community assistance because the decision as to whether the projects are eligible still has to be taken.

The 'border areas' programmes in Ireland and Northern Ireland

3.24. For the border areas of Ireland and Northern Ireland, the non-quota measure is intended to assist the promotion of tourism and the development of craft undertakings and small and medium-sized companies. The need to foster cooperation between the two border areas was one of the underlying reasons for this specific measure, but nowhere in the regulation or in the programme is provision made for a cross-border project.

3.25. An on-the-spot audit carried out by the Court at the end of 1983 revealed that, outside the framework of the Community programme, some isolated initiatives

had been taken in this connection, such as jointly drawing up maps, drafting tourist brochures and organising meetings. On the whole, these were activities that were already in progress before the non-quota measure was implemented and which the latter's implementation had at most helped to continue but not allowed to develop.

The 'steel industry zones — Belgium' programme

3.26. For Belgium, the aid measures under the 'steel industry zones' programme concentrated only on operations concerning product and technological innovation in small and medium-sized undertakings. It is undoubtedly an ambitious, praiseworthy scheme which, also in view of its difficult nature, receives the maximum rate of Community assistance provided for by the regulation, i.e. 70 % of the expenditure.

3.27. It nevertheless quickly became apparent that, despite much canvassing by the authorities responsible, the number of undertakings that considered themselves affected by the scheme was small and was not sufficient to enable the programme to be carried out as expected.

The 'enlargement' and 'energy' programmes for the Greek islands

3.28. For the two Greek programmes, the regulations of 18 January 1984 lay down that, unlike the other non-quota measures, for which only expenditure incurred from the date of entry into force of the regulation instituting the measures is eligible, expenditure incurred as from the 12th month preceding the date of entry into force of the regulation is eligible for Fund assistance.

3.29. This special provision is reflected in the 'energy' programme, which incorporates several schemes that were already under way when the programme was being drawn up. For the 'enlargement' measure, however, the programme's content is confined mainly to a statement of intentions. Even for infrastructures, it mentions investments which still require a great deal of preparatory work, which also means that it is not absolutely clear which expenditure is planned to be charged to the programme.

Conclusions on the special programmes examined

3.30. Whilst it is true that the very nature of the specific measures calls for a different approach for each

programme, the observations set out above show that considerable progress can and must be made in planning the programmes. Similar operations should be presented in a uniform manner. The timetable for carrying out the programmes should indicate the progress of the operations themselves and should not be confined simply to stating the expected dates of the expenditure, without, moreover, specifying whether they are commitments or payments. The authorities called upon to participate in carrying out the programmes should be more involved in drawing them up. Lastly, the expected results for the various types of operations and their contribution to the set objectives should be stated more clearly.

3.31. In fact, as the above observations show, shortcomings such as these cause a number of delays: sometimes the administrative practices do not allow effective implementation, sometimes the conditions for carrying

out the projects are not met or else the planned operations are insufficiently defined for them to be carried out quickly enough.

4. THE FINANCIAL IMPLEMENTATION OF THE NON-QUOTA MEASURES

Commitments, payments and transfers of appropriations

Commitments and payments

4.1 Tables 3 and 4 show the situation as at 31 December 1985, for the first and second series of measures respectively, of commitments and payments entered in the accounts for the various special programmes; no operations have yet been entered in the accounts for the third series of measures decided on in December 1985.

Table 3

First series of non-quota measures: commitments and payments at 31. 12. 1985

Special programmes approved	Community contribution for 5 years (Mio ECU)	Commitments from 1. 1. 1981 to 31. 12. 1985 (Mio ECU)	Balance of contribution to be committed		Payments from 1. 1. 1981 to 31. 12. 1985 (Mio ECU)	Balance of commitments to be paid	
			Amount (Mio ECU)	%		Amount (Mio ECU)	%
Enlargement — F	55	38,4	16,6	30,0	24,7	13,7	36,0
Enlargement — I	65	33,8	31,2	48,0	4,8	29,0	86,0
Steel industry — B	6	1,0	5,0	84,0	1,0	—	—
Steel industry — UK	33	12,8	20,2	61,0	12,8	—	—
Shipbuilding — UK	17	10,4	6,6	39,0	8,9	1,5	15,0
Energy — I	16	5,0	11,0	69,0	1,5	3,5	70,0
Border areas — IRL	16	15,1	0,9	6,0	12,0	3,1	20,0
Border areas — UK	8	5,4	2,6	32,0	4,7	0,7	13,0
Total	216	121,9	94,1	44,0	70,4	51,5	42,0

Table 4

Second series of non-quota measures: commitments and payments at 31. 12. 1985

Special programmes approved	Community contribution for 5 years (Mio ECU)	Commitments from 1. 1. 1984 to 31. 12. 1985 (Mio ECU)	Balance of contribution to be committed		Payments from 1. 1. 1984 to 31. 12. 1985 (Mio ECU)	Balance of commitments to be paid	
			Amount (Mio ECU)	%		Amount (Mio ECU)	%
Enlargement — GR	40	5,5	34,5	86,0	3,3	2,2	40,0
Steel industry — UK	33	10,7	22,3	68,0	6,4	4,3	40,0
Steel industry I — D	13	3,5	9,5	73,0	2,5	1,0	30,0
Steel industry II — D	31	6,8	24,2	78,0	—	6,8	100,0
Steel industry — NL	5	0,8	4,2	85,0	—	0,8	100,0
Shipbuilding — UK	17	4,7	12,3	72,0	—	4,7	100,0
Shipbuilding — D	3	0,6	2,4	78,0	—	0,6	100,0
Energy — GR	20	1,3	18,7	94,0	0,7	0,6	40,0
Textiles — UK	105	21,0	84,0	80,0	12,6	8,4	40,0
Textiles — NL	7	1,3	5,7	82,0	1,1	0,2	15,0
Total	274	56,2	217,8	80,0	26,6	29,6	53,0

4.2. In connection with the following explanations, the reader should also refer to the detailed table in Annex I of this report, which shows the situation of commitments and payments for each special programme according to annual tranches.

Transfers of appropriations

4.3. Regulation (EEC) No 214/79 laid down that the sum allotted to specific measures should amount to 5 %

of the Funds' resources. The time required for the preparation and adoption of the regulations and for the approval of the corresponding programmes, along with delays in implementation, have been such that the Commission has failed to make use of a considerable proportion of the commitment and payment appropriations provided for this purpose since 1978 (see Table 5). The usual practice has been to transfer unused appropriations to the quota measures, with the exception of an amount of 40 Mio ECU of payment appropriations cancelled in 1984.

Table 5

Utilisation of commitments and payment appropriations granted for non-quota measures

Use of appropriations	(Mio ECU)								
	1978	1979	1980	1981	1982	1983	1984	1985	Total
Commitment appropriations granted by the budget for the financial year	29,05	45,0	58,25	77,0	90,5	100,5	115,0	115,0	630,3
Commitments entered in the accounts against appropriations for the financial year or appropriations carried forward	—	—	—	40,6	32,7	5,8	61,0	37,9	178,0
Payment appropriations granted by the budget for the financial year	—	16,0	10,6	20,0	60,0	79,0	100,0	70,0	355,6
Payments entered in the accounts against appropriations for the financial year or appropriations carried forward	—	—	—	7,3	22,4	9,3	24,6	33,3	96,9

Observations

4.4. The under-utilisation of appropriations and the resulting transfers are due to the considerable time taken up by procedures prior to the adoption of the regulations and the approval of the programmes, as well as by actual delays in implementation.

The time needed for the adoption of the regulations and approval of the corresponding programmes

4.5. It took a very long time to prepare and adopt the regulations instituting the specific measures and the corresponding programmes. This was, in the first place, due to the duration of the procedures leading up to the Council Decision, amounting to 12 months for the first and third series of regulations and 14 months for the second series. The time taken by the Member States to submit programmes also accounts for the length of time taken up by the procedures. With regard to the regulations adopted in January 1984, four programmes still had to be submitted by the Member States as at 31 December 1985. Since the non-quota section was set up in 1979, the decision-making process for the three series of regulations has remained incomplete as far as the programmes are concerned, as the table in Annex II shows. This at least partly explains the under-utilisation of appropriations which was observed.

Implementation delays

4.6. There have been considerable delays in the financial implementation of the non-quota regulations, largely because of difficulties encountered in connection with the programmes. Commitments for the first series, the programmes for which were initially scheduled for

implementation by the end of the financial year 1985, are still only just over half of the Community contribution, and payments are approximately one-third. The situation is no better for the second series, which is due for completion by April 1989, especially if the large number of programmes awaiting approval are taken into account.

4.7. Because of such delays, both the impact and the effect of the measures financed are blunted, compared with the objectives set out in the regulations, which is a matter for regret. Because of the effect of depreciation, the delays have also been accompanied by a substantial decline in the real value of the contributions allocated. Furthermore, there is a risk that, with the passing of time, the situations which originally influenced the choice of measures may themselves have changed.

4.8. Half of the total payments of 70,4 Mio ECU relating to the first series are accounted for by payments of advances, since payments for closed annual tranches amount to 35,6 Mio ECU. Of the first six annual tranches committed in 1981, three were still to be closed at 31 December 1985, namely, the special programmes 'enlargement-France', 'enlargement-Italy' and 'energy-Italy'.

4.9. The timetable for aid from the Fund for special programmes during the period 1981-1985 was drawn up as shown in Table 6. Even allowing for the time lag between the implementation of programmes by Member States and the recording of operations in the Commission's accounts, the Court is obliged to note that for several programmes the amounts of the tranches entered in the accounts at the end of the five-year period are lower than those initially forecast for the first two years.

Table 6

Estimated timetable for aid from the Fund for programmes for the period 1981 — 1985

(Mio ECU)						
Special programmes	1981	1982	1983	1984	1985	Total
Enlargement — F	14,9	12,7	11,0	9,1	7,3	55,0
Enlargement — I	18,9	19,1	19,1	4,0	3,9	65,0
Steel industry — B	0,2	0,9	1,7	1,6	1,6	6,0
Steel industry — UK	5,3	7,5	7,5	7,5	5,2	33,0
Shipbuilding — UK	2,5	4,0	3,9	4,0	2,6	17,0
Energy — I	4,5	4,6	3,6	3,3	—	16,0
Border areas — IRL	3,3	4,5	4,5	2,0	1,7	16,0
Border areas — UK	0,5	1,8	1,9	1,9	1,9	8,0
Total	50,1	55,1	53,2	33,4	24,2	216,0

Outstanding financing

4.10. Within the framework of the non-quota measures, the various outstanding financings fall into the following three categories:

- (a) out of a total commitment of annual tranches of 178 Mio ECU, 97 Mio ECU have already been paid and 81 Mio ECU are still outstanding, this amount being included in what is usually referred to as the 'burden of the past';
- (b) out of a group of approved programmes comprising a total contribution of 490 Mio ECU, a quantity of commitments amounting to 312 Mio ECU, which is also part of the 'burden of the past', is still to be

entered in the accounts as a commitment and will have to be paid subsequently;

- (c) moreover, the measures set up by the Council regulations include a group of programmes still to be approved for a total amount of 598 Mio ECU, the commitment and payment of which should normally be completed within the deadlines laid down for the implementation of the measures.

4.11. This being so and as shown in Table 7, the total outstanding financing to be completed by 1991 consists of 991 Mio ECU in payments and 910 Mio ECU in commitments, of which 312 Mio ECU have already been committed but have not yet been entered in the accounts.

Table 7

Commitments and payments to be provided as non-quota measures

	(Mio ECU)			
	First series of measures	Second series of measures	Third series of measures	Total
Estimated Community contribution	220	724	144	1 088
Approved programmes	216	274	—	490
Programmes to be approved	4	450	144	598
Commitments entered in the accounts	122	56	—	178
Payments entered in the accounts	70	27	—	97
Commitments to be provided				
— for approved programmes	94	218	—	312
— for programmes to be approved	4	450	144	598
Total	98	668	144	910(*)
Payments to be provided				
— for approved programmes	146	247	—	393
— for programmes to be approved	4	450	144	598
Total	150	697	144	991

(*) Of which approximately 830 Mio ECU is to be provided for before 1 April 1989 and the balance before the end of February 1991.

The ineligibility of certain categories of operations

4.12. As has already been mentioned, the documentation available at Community level is general in nature and it is not possible to check the eligibility of expenditure declared by Member States. At present, such checks can only be made on the spot.

4.13. On-the-spot checks carried out by the Court revealed that the categories of measure shown under the paragraph references given below, expenditure for which is included in the Member States' declarations, did not comply with the existing provisions. Such findings should encourage the Commission to extend the

coverage of its own inspection procedures in this area, and to draw the appropriate conclusions from them regarding the validation of the expenditure.

4.14. Article 4, paragraph 3, of the Council Regulation of 7 October 1980 concerning the 'steel industry zones' measure provides for a contribution from the Fund for 'the establishment or development of consultancy firms or other bodies for management or organization matters by means of direct or indirect aid'. Operations financed under this heading in the United Kingdom definitely related to services provided by consultancy bodies or similar firms. However, the bodies or firms concerned are included in the list of companies recognised by the administration, which includes most

internationally known firms of specialist consultants. In this case, aid from the Fund only complies to a very limited extent with the objective of 'the establishment or development' of consultancy firms or other bodies laid down by the regulation.

4.15. Article 4, paragraph 4 of the same Regulation provides for a contribution from the Fund for 'the establishment or development of common services for a number of undertakings'. Article 5, paragraph 1 (e), section V, specifies that Community aid should cover 'part of the undertakings' expenditure on the operation of these services'. Operations financed under this section in the United Kingdom concerned the reimbursement to a firm of accountants of expenditure on management consultancy services for twenty commercial bodies. Such operations do not correspond to the objective of the Regulation, which is to help small and medium-sized undertakings obtain access to a pool of shared back-up services so that they can carry out management, training, research or business development activities.

4.16. A similar observation can be made concerning the 'establishment or development of common services for a number of undertakings' in Ireland (Article 4, paragraph 7 (c), of the Regulation on 'border areas'). The expenditure declared under this heading consisted essentially of lump-sum payments made to a state-run entity responsible for export promotions, as a Community contribution to its incidental expenses (trade fairs, business development trips and promotional sales). Aid allocated in this way may well have an opposite effect to that intended by the Regulation, which is to reduce the dependence of small and medium-sized undertakings on services provided by other bodies.

4.17. Also in Ireland, the expenditure on the development of transport activities (Article 4, paragraph 5, of the Regulation) was in line with the conditions set out in the programme but concerned development work on Sligo airport, situated in the county of the same name, which was not one of the eligible zones. The airport

was expected to make tourist access easier to other counties, which were included in the border areas. Furthermore, the county of Sligo has become an eligible area since the entry into force of the regulations of 17 December 1985, but this fact does not guarantee the regularity of the expenditure, from the point of view of the provisions of Article 2 of the Regulation of 7 October 1980 which determined the eligible zones.

5. ANNUAL PROGRESS REPORTS

Annual reports to be submitted by Member States

The importance of the annual reports

5.1. At the end of each year, the Member State concerned is required to submit a report to the Commission on progress made in carrying out each special programme, with reference to the information stipulated in the Annex to the regulations instituting the non-quota measures. These reports are meant to enable the Commission to satisfy itself that the special programme is being carried out, to observe its effects and to establish that the different operations are being carried out consistently.

5.2. The importance of such reports for the administration of the non-quota measures has already been mentioned. They are the only documents designed to enable the Commission to check that each special programme is in fact being implemented, since the other documents which the Member States are required to submit concerning the progress achieved in implementing the measures are general in nature.

Annual reports available

5.3. Table 8 shows the annual progress reports which had been sent to the Commission by Member States by 31 December 1985 and which only concern programmes begun as part of the first series of regulations.

Table 8
Annual progress reports available at 31 December 1985

Programme	Annual report			
	1981	1982	1983	1984
Enlargement — F		X	(*)	(*)
Enlargement — I		X	X	
Steel industry — B		X	X	X
Steel industry — UK		X	X	X
Shipbuilding — UK		X	X	X
Energy — I		X	X	
Border areas — IRL	X	X	X	X
Border areas — UK	X	X	X	X

(*) In the case of the 'enlargement France' programme a report has been presented covering 1983 and the first 4 months of 1984.

Observations

Compliance with the obligation to present an annual report

5.4. Table 8 shows that the legislation providing for the submission of an annual progress report could have been applied more strictly.

5.5. In the case of the 'enlargement-France' and 'energy-Italy' programmes, which were approved in June 1981, the first report was not submitted until the end of 1982. Similarly, the second report submitted for France was drawn up on the basis of the situation at 1 May 1984 and the 1984 reports for the 'enlargement-Italy' and 'energy-Italy' programmes had still not been submitted at 31 December 1985.

5.6. It should be noted in this respect that the regulations do not stipulate a time-limit for the submission of these annual reports.

The content of the annual reports

5.7. There are even greater differences between the methods used to draw up the progress reports than between the programmes themselves. Some documents include list of projects receiving aid, at least as regards the main categories of operations, whilst others only contain overall expenditure figures, or even allocations of appropriations, and the available information on the implementation effects of the programmes is vague and is supplied only sporadically.

5.8. The reports do not distinguish between expenditure already made and expenditure which is still to be effected. For example, certain amounts are drawn up on the basis of tenderers' bids. From an examination of the documents, no distinction can be drawn between commitments, payments and balances outstanding, whereas such a distinction is essential in order to trace the financial implementation of the aid that has been granted.

5.9. None of the reports provide enough information for the reader to be able to trace the financial implementation by annual tranches, or to find out which of a Member State's tranches are finished and which tranches are still to be closed. Comparisons with the forecasts for the programme are incomplete and superficial.

5.10. The last report for the border areas of Ireland shows the yearly expenditure and the cumulative expenditure since the beginning of the programme, broken down by type of operation and, in several cases, by project. Comparisons with the amounts appearing in the preceding year's reports reveal differences which may be explicable but for which no explanation is given. Such comparisons cannot be made in the case of

the reports on the border areas of Northern Ireland, nor the other United Kingdom reports, which only give the cumulative amounts of expenditure. The reports for the 'steel industry and shipbuilding-United Kingdom' programmes and for the 'enlargement-France' programme do not give any breakdown of expenditure by project.

5.11. On the basis of the instructions given in the Annexes to the regulations instituting the non-quota measures, the Commission should draw up a standard model for the preparation of annual reports, specifying the exact information required in order to evaluate the progress of operations, the justification of expenditure and the implementation effects of the programmes.

5.12. The aim of the annual reports is not to supply mainly useful general information to account for Community activities: they are supporting documents for the implementation of the programmes and should, in particular, allow a comparison to be made with the requests by Member States for payment of the balance of the annual tranches. Even in a system of global financial certificates, such as the non-quota measures system, the Community cannot evade its obligation to satisfy itself that expenditure is justified, and the annual progress reports should constitute one of the essential supporting documents for this purpose.

Examination of the annual reports and adaptation of the special programmes

5.13. Examination of the annual reports should provide a good opportunity for proposing and adopting in good time any new decisions that appear to be suitable for the implementation or, if necessary, the rapid adjustment of the programmes. Progress still has to be made on this point also.

5.14. The report submitted by Italy on 30 November 1982 for the 'enlargement' and 'energy' programmes and for the programme to be proposed on 'steel industry zones' highlighted implementation difficulties which are linked to the wide variety of measures provided for, to differences in the provisions governing the activity of the implementing bodies responsible and to the absence of specific national or regional legislation in some of the sectors concerned.

5.15. As already shown in paragraph 3.27, it transpired in the case of Belgium that, as from 1983, the programme might have certain indirect effects resulting from the interchange of ideas, concerns and experiences but that the work itself (research and application) was less important in terms of innovation than anticipated.

5.16. The precise measures called for by these findings were not immediately adopted and, despite the adoption of new Council regulations, the situation of the programmes in question had scarcely changed at 31 December 1985.

Examination of the operations implemented

5.17. In practice this examination can only be carried out for programmes which have made significant progress. Subject to this reservation, some Member State annual reports show that implementation tends to be concentrated on components and infrastructures. For the 'border areas' of Ireland and Northern Ireland, 90,1 % of estimated expenditure on operations provided for under Article 4, paragraph 3, of the Regulation (provision of amenities and infrastructures directly linked to the development of tourism and to cultural and recreational facilities) as laid down by the programme for Ireland up to the end of 1984, had been implemented at that time, whereas the implementation rate for the programme as a whole reached 70,1 %. Abiding by the estimates is harder when it comes to supplying aid to craft industries (Article 4, paragraph 6, of the Regulation: 63,3 % for Ireland and 42,7 % for Northern Ireland), due in particular to the difficulty of finding valid projects.

5.18. Other reports, such as the United Kingdom reports on the 'steel industry' and 'shipbuilding' programmes, quote the same implementation rate for both infrastructures and for aid to small and medium-sized undertakings. However, in this respect the observations made under points 4.17-4.18 should be borne in mind: these observations show that the provisions governing aid to small and medium-sized undertakings have been applied in a very broad sense, which does not conform to the objectives of the regulations.

5.19. The reports relating to the 'border areas' of Ireland, which are the only ones to include a breakdown of expenditure by project, also show considerable fragmentation and diversity of investments in the infrastructures financed, which blunts the impact of the Community aid. From a total expenditure (with regard to Article 4, paragraph 3, of the Regulation) of 7,25 Mio IRL (i.e. $\pm$ 5,2 Mio ECU), 215 projects were financed, giving an average expenditure of 33 721 IRL per project. Some investments were for less than 1 000 IRL.

5.20. There is an obvious risk that non-quota measures may have been partly used to finance investments which, due to the small amount involved, did not qualify under the quota measure section of the Fund, for which a minimum of 50 000 ECU per project was required.

6. CONCLUSIONS

6.1. The non-quota measures have met a need for diversification of the activities of the Fund. The innovative nature of these measures should have prompted the Commission and the Member States to pay greater attention to the problems involved in their implementation.

6.2. Hitherto, the implementation of these measures has been characterised by considerable delays which greatly reduce the results achieved. In the first place, the preparation and adoption of the regulations and the examination and approval of the programmes proved to take up an extremely long time. Secondly, implementation of the programmes was affected by various difficulties, due to a frequent lack of precision and to a failure to meet the preconditions for implementation.

6.3. At the same time the regulations have been modified by broader and broader definitions of the operations and regions which are eligible and by the granting of considerable advances to Member States.

6.4. In this context, the Commission should improve its appraisal of the programmes submitted for approval by Member States and make full use of the possibilities provided for by the rules at present in force, so as to ensure management and supervision of the measures, notably by means of more frequent and systematic on-the-spot checks.

6.5. The Commission and Member States should endeavour to focus programme content more on the operational aspects of the contributions and on the results attainable in the light of the regulations' objectives. There is also a need for the local authorities concerned to be better informed and more aware with regard to the design, objectives and methods of the regulations: in too many cases, the programme proved to be a superficial document and the conditions necessary for making it a reality were not met.

6.6. At the financial level, management of the Commission's share of the financing still lacks a suitable documentary and accounting framework to show current financing and the quite considerable amounts of outstanding financing.

6.7. The method of commitment by annual tranches, which is provided for by the regulations, should be reviewed since it does not give full accounts for the commitments and results in carry-overs of charges, whose amounts do not appear in the accounts.

6.8. The Commission should also specify the content of the annual reports, so as to show what information is required in order to evaluate the progress of operations, the justification of expenditure and the implementation effects of the measures. Even in a system of global financial certificates, such as the non-quota measures, the Commission is responsible for justifying expenditure. In this respect, the annual reports should be essential documents and the information which they are required to contain should be

precisely stated, so that they can be used as a tool for assessing the eligibility of the expenditure and for carrying out any on-the-spot audits of expenditure.

6.9. The above observations are all the more deserving of the Commission's attention as the new ERDF Regulation puts greater emphasis on financing by programmes, so that it is essential that the lessons to be learned from the experience of non-quota measures should be put to good use.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 10 July 1986.

For the Court of Auditors

Marcel MART

President

(1) OJ L 35 of 9. 2. 1979, p. 1.

(2) OJ L 73 of 21. 3. 1975, p. 1.

(3) Through the application of Council Regulation (EEC) No 1787/84 of 19. 6. 1984 (OJ L 169 of 28. 6. 1984, p. 1), as amended by Council Regulation (EEC) No 3634/85 of 17. 12. 1985 (OJ L 350 of 27. 12. 1985, p. 6).

(4) OJ L 271 of 15. 10. 1980, p. 1.

(5) OJ L 27 of 31. 1. 1984, p. 1.

(6) Council Regulations (EEC) Nos 3635/85 to 3638/85 of 17. 12. 1985 (OJ L 350 of 27. 12. 1985, p. 8).

(7) This certificate must contain the following information:

- (a) the nature of the operations covered by the payment claim;
- (b) particulars of the amount and nature of expenditure effected by the Member State in respect of the different operations during the period covered by the claim;
- (c) confirmation that the operations described in the payment claim have been begun in accordance with the special programmes.

ANNEX I

Non-quota measures: the situation of commitments and payments according to annual tranches

(Mio ECU)

Programmes		Commitments					Payments					Balance to be paid
		1981	1982	1983	1984	1985	1981	1982	1983	1984	1985	
Enlargement — F	I	15,6	—	—	—	—	4,7	—	4,7	4,6	—	1,6
	II	—	12,7	—	—	—	—	3,8	—	6,9	—	2,0
	III	—	—	—	10,1	—	—	—	—	—	—	10,1
Enlargement — I	I	16,1	—	—	—	—	—	4,8	—	—	—	11,3
	II	—	—	—	17,7	—	—	—	—	—	—	17,7
Steel industry — B	I	0,2	—	—	—	—	—	0,1	—	0,1	—	—
	II	—	0,8	—	—	—	—	0,2	—	0,3	0,3	—
Steel industry — UK	I	—	5,3	—	—	—	—	5,3	—	—	—	—
	II	—	7,4	—	—	—	—	2,2	—	4,5	0,7	—
Shipbuilding — UK	I	—	2,6	—	—	—	—	2,6	—	—	—	—
	II	—	3,9	—	—	—	—	1,2	1,2	—	1,5	—
	III	—	—	—	3,9	—	—	—	—	—	2,4	1,5
Energy — I	I	5,0	—	—	—	—	1,5	—	—	—	—	3,5
Border areas — IRL	I	3,2	—	—	—	—	1,0	1,9	0,3	—	—	—
	II	—	—	4,3	—	—	—	—	2,6	1,7	—	—
	III	—	—	—	4,2	—	—	—	—	0,9	3,3	—
	IV	—	—	—	—	3,4	—	—	—	—	0,3	3,1
Border areas — UK	I	0,5	—	—	—	—	0,1	0,3	0,1	—	—	—
	II	—	—	1,5	—	—	—	—	0,4	1,1	—	—
	III	—	—	—	1,7	—	—	—	—	0,5	1,2	—
	IV	—	—	—	—	1,7	—	—	—	—	1,0	0,7
Total		40,6	32,7	5,8	37,6	5,1	7,3	22,4	9,3	20,6	10,7	51,5
Enlargement — GR	I	—	—	—	5,5	—	—	—	—	3,3	—	2,2
Steel industry — UK	I	—	—	—	3,3	—	—	—	—	—	2,0	1,3
	II	—	—	—	—	7,4	—	—	—	—	4,4	3,0
Steel industry I — D	I	—	—	—	0,9	—	—	—	—	—	0,9	—
	II	—	—	—	—	2,6	—	—	—	—	1,6	1,0
Steel industry II — D	I	—	—	—	—	6,8	—	—	—	—	—	6,8
Steel industry — NL	I	—	—	—	—	0,8	—	—	—	—	—	0,8
Shipbuilding — UK	I	—	—	—	1,7	—	—	—	—	—	—	1,7
	II	—	—	—	—	3,0	—	—	—	—	—	3,0
Shipbuilding — D	I	—	—	—	—	0,6	—	—	—	—	—	0,6
Energy — GR	I	—	—	—	1,3	—	—	—	—	0,7	—	0,6
Textiles — UK	I	—	—	—	10,5	—	—	—	—	—	10,5	—
Textiles — NL	I	—	—	—	—	10,5	—	—	—	—	2,1	8,4
	II	—	—	—	0,2	—	—	—	—	—	0,2	—
	III	—	—	—	—	1,1	—	—	—	—	0,9	0,2
Total		—	—	—	23,4	32,8	—	—	—	4,0	22,6	29,6

Key: I, II, III, IV = serial number of the annual tranches.

ANNEX II

Non-quota measures: stage reached in the examination of the programmes

Regulation (EEC) No	Programme	Date of the proposal for a regulation	Date of the Council Decision	Date of receipt of the programme by the Commission	Date of decision by the Commission
2615/80	Enlargement — F	15.10.1979	7.10.1980	5.1.1981	10.6.1981
2615/80	Enlargement — I	15.10.1979	7.10.1980	5.1981	3.12.1981
2616/80	Steel industry — B	15.10.1979	7.10.1980	2.9.1981	17.12.1981
2616/80	Steel industry — I	15.10.1979	7.10.1980	—	—
2616/80	Steel industry — UK	15.10.1979	7.10.1980	12.1981	29.4.1982
2617/80	Shipbuilding — UK	15.10.1979	7.10.1980	17.2.1982	20.6.1982
2618/80	Energy — I	15.10.1979	7.10.1980	4.3.1981	20.6.1982
2619/80	Border areas — IRL	15.10.1979	7.10.1980	25.3.1981	10.6.1981
2619/80	Border areas — UK	15.10.1979	7.10.1980	25.3.1981	10.6.1981
214/84	Enlargement — F	18.11.1982	18.1.1984	31.10.1985	not yet taken
214/84	Enlargement — I	18.11.1982	18.1.1984	10.6.1985	not yet taken
215/84	Enlargement — GR	18.11.1982	18.1.1984	10.4.1984	21.12.1984
216/84	Steel industry — B	18.11.1982	18.1.1984	20.2.1985 ^(*)	—
216/84	Steel industry D — I	18.11.1982	18.1.1984	5.9.1984	21.12.1984
	D — II	18.11.1982	18.1.1984	12.12.1984	18.11.1985
216/84	Steel industry — F	18.11.1982	18.1.1984	18.11.1985	not yet taken
216/84	Steel industry — I	18.11.1982	18.1.1984	15.5.1985	not yet taken
216/84	Steel industry — L	18.11.1982	18.1.1984	—	—
216/84	Steel industry — NL	18.11.1982	18.1.1984	15.5.1985	18.11.1985
216/84	Steel industry — UK	18.11.1982	18.1.1984	1.8.1984	12.12.1984
217/84	Shipbuilding — D	18.11.1982	18.1.1984	18.11.1984	18.11.1985
217/84	Shipbuilding — UK	18.11.1982	18.1.1984	1.8.1984	21.12.1984
218/84	Energy — GR	18.11.1982	18.1.1984	10.4.1984	21.12.1984
218/84	Energy — I	18.11.1982	18.1.1984	—	—
219/84	Textiles — B	18.11.1982	18.1.1984	22.4.1984	not yet taken
219/84	Textiles — F	18.11.1982	18.1.1984	18.11.1985	not yet taken
219/84	Textiles — IRL	18.11.1982	18.1.1984	—	—
219/84	Textiles — I	18.11.1982	18.1.1984	—	—
219/84	Textiles — NL	18.11.1982	18.1.1984	14.2.1984	21.12.1984
219/84	Textiles — UK	18.11.1982	18.1.1984	1.8.1984	21.12.1984
3635/85	Shipbuilding — D	14.12.1984	17.12.1985	—	—
3635/85	Shipbuilding — F	14.12.1984	17.12.1985	—	—
3635/85	Shipbuilding — I	14.12.1984	17.12.1985	—	—
3635/85	Shipbuilding — UK	14.12.1984	17.12.1985	—	—
3636/85	Textiles — B	14.12.1984	17.12.1985	—	—
3636/85	Textiles — D	14.12.1984	17.12.1985	—	—
3636/85	Textiles — F	14.12.1984	17.12.1985	—	—
3636/85	Textiles — IRL	14.12.1984	17.12.1985	—	—
3636/85	Textiles — I	14.12.1984	17.12.1985	—	—
3636/85	Textiles — NL	14.12.1984	17.12.1985	—	—
3636/85	Textiles — UK	14.12.1984	17.12.1985	—	—
3637/85	Border areas — IRL	14.12.1984	17.12.1985	—	—
3637/85	Border areas — UK	14.12.1984	17.12.1985	—	—
3638/85	Fisheries — DK	14.12.1984	17.12.1985	—	—
3638/85	Fisheries — D	14.12.1984	17.12.1985	—	—
3638/85	Fisheries — F	14.12.1984	17.12.1985	—	—
3638/85	Fisheries — UK	14.12.1984	17.12.1985	—	—

(*) Certain sub-projects.

THE COMMISSION'S REPLIES

I. General comments

The Court of Auditors' general remarks highlight the difficulties encountered in implementing the specific Community regional development measures — difficulties which arise from the innovative nature of those measures and the fact that they involve a large number of economic operators in the assisted regions.

Unlike investment in industrial or infrastructure projects, the aims of which can easily be expressed in value and product terms, the special programmes are designed to encourage new and varied activities, the precise nature and economic and social impact of which are difficult to gauge at the time they are launched (points 3.6 to 3.31). Their chances of succeeding are similarly fraught with uncertainty (points 5.1 to 5.20).

The creation of new jobs seemed at first sight to be the easiest indicator to apply (points 3.10 to 3.13). In fact, the responses to the offers of grants made by the national, regional and local authorities to firms to give real substance to the programmes do not depend directly on the public authorities but on the nature of the economic fabric and the industrial traditions of the regions concerned. It was found, for example, that small and medium-sized firms were very poorly represented in areas affected by the decline of shipbuilding and steel. When it comes to forecasting numbers of jobs to be created, small and medium-sized firms involved in the specific measures are virtually incapable of setting precise and realistic objectives. They are — quite understandably — unable to say how much their production will expand over the five-year period of the special programmes.

With regard to the counselling activities designed to assist small and medium-sized firms, experience has already shown that the consultancy services provided may either spur the firm on or, if the assessment is unfavourable, simply lead to the abandonment of the expansion project or even to the takeover of the firm in question by a group from the industry in question. This outcome is by no means abnormal, since what the management and organization consultants are expected to do is to make a diagnosis and produce recommendations following their analysis of the firm's capacity,

both from the viewpoint of its structures and from that of its markets. The question of whether such firms can then achieve their directors' ambitions always depends on the quality of the managers and the extent to which markets and products match.

As to the activities to promote innovation in industry and the service sector, it has been found in extreme cases that, while innovation may boost a firm's productivity, it actually leads to a reduction in the number of jobs. An illustration is provided by the invention of an apparatus for pointing brick walls, the use of which reduces a bricklayer's working time by 50%; it may thus help not to create jobs but to reduce labour requirements, while at the same time making the activity profitable. Efforts to quantify the impact of innovation on employment are therefore unrealistic in practice and in any case meaningless.

Should such an exercise include, for example, the workforce of firms assisted by consultancy bodies without an appropriate deduction being made for firms which have decided not to implement the consultants' recommendations? Is it possible, on the other hand, to credit a specific ERDF-financed measure those jobs which may have been created upstream through the setting-up of a new firm which manufactures equipment or machinery invented in a centre for promoting innovation, if the ERDF has financed only the conversion of the building housing that centre? The answers to these two questions should, at first sight, be negative.

The above arguments demonstrate clearly enough the uncertainty and difficulty of compiling statistics for the effects of the complex economic phenomena which surround implementation of the special programmes financed under the specific Community measures (points 5.17 to 5.20). Those measures are intended to influence the software of the economy (spirit of enterprise, managerial ability, innovation, assessment of potential markets) rather than its hardware (infrastructures, physical environment, pooled facilities, etc.), which simply constitutes the internal material support for the activities to be created, which themselves depend primarily on the application of brain power.

With regard to the Court of Auditors' recommendations at the end of its report (points 6.1 to 6.9), it is necessary to bear in mind the conditions under which the various planning and administrative phases of the specific Community measures are carried out.

As to the length of time required for the adoption of the Regulations and the preparation of the specific programmes (point 6.2), it should be remembered that both the Commission and the Member States were faced with a new operational approach — the programme approach. Furthermore, many of the operations covered by the specific Community measures are concerned with the potential for internally generated development, a field which still requires much exploration.

The fact that the framework set by the Regulations has since become more flexible (point 6.3) reflects the experience gained from the first series of specific Community measures and will make them more practicable, since operations would otherwise simply be blocked.

As to the financial aspects (points 6.6 and 6.7), the Commission is aware that there may be a problem of transparency in respect of the financial consequences of the political commitments that the Community makes when it approves, for each specific Community measure, the overall indicative volume of finance covering a period of five years. This question is being examined in a wider context.

With regard to the examination of the specific programmes and their monitoring on the basis of the annual implementation reports (point 6.8), the Commission has not slackened in its efforts to make improvements. Although the principle of involving the Commission in the devising and preparation of programmes and then, once they have been approved, in their implementation has not been incorporated into the Regulations, the Commission participates actively as far as the means at its disposal allow. As far as the monitoring of programmes is concerned, the Commission is sympathetic to the Court of Auditors' suggestion that a standard outline for the annual reports should be introduced.

Finally, the Commission would confirm that, in implementing the provisions of the new Regulation that deal with programme financing, it applies the lessons learned from the first ambitious experiment conducted with the specific Community measures (point 6.9). The Commission is aware that there have been some difficulties in launching these measures — difficulties which have been due largely to the new approach to the problems of regional development.

II. Comments on specific points

The Commission would like to comment as follows on a number of specific points made by the Court of Auditors:

Points 2.12 to 2.14

The Commission is aware that there may be a problem of transparency in respect of the financial consequences of the Community's political commitments. It is examining this question in a wider context.

Point 3.5

The Commission must obviously wait for the programmes to be submitted by the Member States.

As at 31 December 1985, the Commission had still to approve 11 special programmes: seven new programmes and four amendments to existing programmes. Of those 11 programmes, seven have been submitted by the Member States and are being appraised by the Commission, although some of them do not yet cover all the designated areas.

Points 3.10 to 3.13

The difficulty of quantifying objectives, particularly with regard to jobs, is inherent in the very nature of the operations to be assisted (see general comments), since the majority of those operations are in the 'software' field. The objectives set out in the special programmes are therefore expressed in qualitative terms or based on standard evaluation criteria such as the normal or average rate of use of industrial sites.

Points 3.14 to 3.16

The Commission will publish the approved special programmes in a suitable manner.

Points 3.17 to 3.31

Demands made with regard to the quantification of targets and the possibility of defining individual projects to be assisted should be realistic and not too stringent. The point is to promote flexibility of planning, this being implicit in the idea of special programmes. If the Commission were to adopt too strict an attitude in this regard, that would bar the way to any specific Community measure. Such an attitude might easily have prevented the special programmes from being drawn up, particularly as the measures in question are designed mainly to help existing and potential small and medium-sized firms whose weak administrative structures and uncertain market prospects rule out the provision of precise data.

The Community opted for flexibility, the key to the economic success of the exercise.

The value of the specific Community measures depends on their capacity to provide support for a wide range of operations — operations which, in the particular fields determined by the Regulations, should contribute to the development of small and medium-sized firms, to innovation or to the attainment of other objectives set for each of the Regulations.

This approach calls for highly flexible mechanisms and an open mind for original measures, the prime objective being to ensure that the most appropriate steps towards achieving the overall objectives are taken and that priority is given to areas of potential development, which in some cases are still diffuse. While such an approach is in some cases ambitious and praiseworthy (as is recognized in some of the programme reports), it frequently leaves little scope for indicating and quantifying the results of operations in advance.

With regard to the Court of Auditors' comment (points 3.24 and 3.25) concerning the reasons for the border area programmes in Northern Ireland and Ireland, the Commission would point out that the prime objective of the measures taken under the Regulation was to contribute to the development of economic activities in areas regarded as being severely handicapped owing to their location along the frontier. It is of course hoped that closer cross-frontier cooperation in fields such as those cited by the Court of Auditors will be one of the results of this development of areas on both sides of the frontier. It should be added that the desired improvement in cross-frontier cooperation is partly dependent on an improvement in cross-frontier political links — a field in which the Commission has no specific means of securing an improvement.

Finally, there is no requirement that operations of the same kind should be presented in a uniform manner in all the special programmes (point 3.30). The very idea of a programme means that the various types of operation can be presented and carried out in the manner best suited to the needs of the area concerned, provided that the general conditions laid down in the Regulation relating to the specific Community measure are observed.

Point 4.5

With regard to the time needed to draw up the programmes, the following points should be borne in mind:

- the fact that the specific measures are new to the Member States,
- this has in turn meant that the drawing-up of the special programmes has presented difficulties for the national authorities, particularly since it has involved a variety of public authorities and such private-sector operators as small and medium-sized firms, consulting engineers, etc.,

- the fact that, in order to be able to approve the programmes, the Commission has been compelled time and again to ask the Member States to supply additional information and to adjust certain measures, to which they could respond only after they had obtained information from the regions themselves.

Points 4.6 to 4.9

Many of the delays referred to by the Court of Auditors are due to the fact that the Member States have been slow in implementing the programmes for all sorts of reasons. In some cases, it has even been necessary to adapt national administrative structures to create a planning and implementation framework which would meet the needs of the specific Community measures.

Points 4.12 to 4.17

The Commission has been careful to ensure that the documentation available fully satisfies the requirements of ERDF provisions. It also considers that on-the-spot checks have a really important part to play, in that they enable a better assessment to be made of certain situations.

Point 4.13

The Commission has also discovered, notably when it carried out an on-the-spot check on the special shipbuilding programme in the United Kingdom, that items of expenditure ineligible under Article 4 (1) of the Regulation have been included in the amount of expenditure declared.

Assuming that this 'extended' interpretation of the Regulation has in all probability led to the inclusion of similar expenditure in other projects — which it has not been materially possible to check — the Commission has requested the United Kingdom authorities to carry out a systematic check of the items of expenditure included in all the operations covered by Article 4 (1) of the Regulation.

The Commission has therefore informed the Member State in question that it cannot make new payments under the special shipbuilding programme until it has been informed of the findings of the investigation requested.

Point 4.14

Article 4 (3) of Regulation (EEC) No 2616/80 must be interpreted in conjunction with Article 5 (c) and (d). Article 5 (c) clearly authorizes small and medium-sized firms to use the services of existing consultancy bodies, also providing them with indirect aid through the use of the services of those bodies.

Points 5.11 and 5.12

The Commission is favourably disposed towards the Court of Auditors' suggestion that a standard model be used for the annual reports, particularly for the reasons given by the Court of Auditors at point 5.12. This suggestion is currently being examined.

Points 5.19 and 5.20

The use of non-quota measures for financing small-scale infrastructure projects seems to be perfectly con-

sistent with the programme approach. No minimum cost limit has been laid down, and by their very nature the infrastructure projects in question frequently require little in the way of expenditure. Thus, the provision of recreational facilities in rural areas with no other development prospects than an increase in short tourist stays can frequently play an appreciable part in finding additional resources for local populations. Many of the local authorities concerned have available only limited resources for financing such operations.

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