

ANNEX 5: OVERVIEW OF STRUCTURAL POLICIES OF THE EU

Following total financial allocation on the Common Agricultural Policy (~43% of total budget), the expenditure on structural operations is the EU's second largest single budgetary position (~38%). The largest portion of resources for structural operations is allocated on the Structural Funds (~ 92% of expenditure on structural operations), and a smaller portion on the Cohesion Fund. The EU Structural Funds are administered by the Commission to finance Community structural aid. The principle aim of the EU's structural policy is the redistribution of income from the relatively richer to the poorer regions of the EU.

The regulations adopted in 1993 for the period 1994-1999 established 6 priority Objectives (Objectives 1-5b). A further Objective (Objective 6) for the Structural Funds was created by the Act of Accession for Austria, Finland, and Sweden¹. Four of these priority Objectives address regional problems²:

- * Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind, i.e. the individual region's GDP per capita is below 75% of the Union's average (accounting for 68% of total resources);
- * Objective 2: conversion and restructuring of areas seriously affected by industrial decline (11% of total resources);
- * Objective 5b: facilitating the development and structural adjustment of rural areas that do not fall under Objective 1 (4% of total resources); and
- * Objective 6: promoting the development and structural adjustment of regions with an extremely low population density, i.e. less than 8 inhabitants per km² (0.5% of total resources).

Three other Objectives are centered on specific problems rather than on regions:

- * Objective 3: combating long-term unemployment and facilitating the integration into working life of your people and of those excluded from the working market;
- * Objective 4: facilitating the adaptation of workers to industrial change and changes in production systems; and
- * Objective 5a: speeding up the adjustment of agricultural structures in the framework of the reform of the Common Agricultural Policy and facilitating the structural adjustment of the fisheries sector in the framework of the Common Fisheries Policy.

Altogether, the budget of the Structural Funds has quadrupled in the last few years, totaling 161b ECU for the period 1994-1999. In addition, structural operations are carried out by the Cohesion Fund and loans from the European Investment Bank (EIB), which are based on a project-financing approach and are governed by their own specific rules. The European Union maintains three main structural funds, namely the European Regional Development Fund (ERDF), the European Social Fund (ESF), and the Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF).

¹ See European Commission, 1999f.

² The population covered by the regional Objectives amounts to 51% of the EU total. Some 55% of the total resources go to 16% of the EU population in four countries - Greece, Spain, Ireland, and Portugal - mostly through Objective 1 programs.

The Financial Instrument for Fisheries Guidance (FIFG) is not a Structural Fund as such, but finances structural actions in the fisheries sector within the framework of Structural Fund programs³.

As displayed in **Table 1**, the assistance of the ERDF is provided to less favored regions and is focused mainly on productive investment, infrastructure and development of small- and medium-size enterprises⁴. About 44% of the total spending on Structural Funds is allocated to the ERDF. Under current provisions, ERDF payments are granted to regions eligible for payments under Objectives 1, 2, 5b and 6. The ESF accounts for 27% of budgetary allocations to Structural Funds. Its main task is the financial support of vocational training and employment aids in less favored regions of the EU eligible under Objectives 1 to 4, 5b and 6. Promotional activities of agricultural structures and rural development measures under the Guidance Section of the EAGGF account for another 14% of Structural Funds. Its activities are limited to the regions eligible for support under Objectives 1, 5a, and 5b.

On 24 and 25 March 1999, the European Council in Berlin reached political agreement on the Agenda 2000 regulations. Regarding the framework to structural operations, it was decided to cut down the number of principal Objectives to three Objectives⁵:

- * Objective 1, for regions where development is lagging behind and per capita GDP is below 75% of the EU's average⁶ (i.e. the title of Objective 1 remained unchanged). Regions currently eligible under Objective 6, which have a per capita GDP of less than the 75% threshold, will be eligible in their entirety under Objective 1. The other Objective 6 areas will be eligible for Objective 1 and receive a transitional support. Current Objective 1 regions no longer qualifying for Objective 1 will have their assistance phased out gradually. Budgetary resources have been divided among the Objectives with the aim of significant concentration on Objective 1 regions. In total 69.7% of the Structural Funds budget will be allocated on Objective 1 regions (135.9b EUR), 4.3% of which to regions in transition.
- * Objective 2, for areas undergoing economic and social conversion. The Commission states that, as under Objective 1, the focus should be on the most seriously affected areas. The population covered by this Objective over the whole period 2000-2006 should be no more than 18% of the Union. The maximum possible reduction in population covered by the new Objective 2 in 2006 will be limited to one-third compared to coverage under current Objectives 2 and 5b (including areas receiving transitional support under Objective 1 which meet the Objective eligibility criteria). Areas currently eligible under Objectives 2 and 5b that do not qualify for the new Objective 2 criteria will see their entitlement phasing out, to end in December 2003. In total, 11.5% of the total Structural Funds budget

³ See European Commission, 1999f.

⁴ See European Council, 1993c, Art. 1.

⁵ See European Commission, 1998c, pp. 14.

⁶ Calculations will be based on figures for the last three years available from Eurostat.

will be allocated to Objective 2 regions (22.5b EUR), 1.4% of which to regions in transition.

- * Objective 3, for development of human resources, will fund the adaptation and modernization of policies and systems relating to education, training and employment. 12.3% of the total Structural Funds budget will be allocated to these regions (24.05b EUR). This will be funded outside the areas eligible under new Objectives 1 and 2.

The EU's contribution to structural funding is subject to cofinancing procedures, i.e. the government responsible for the regions that receives the support has to cover a predefined rate of the project volume in order to be eligible for Community participation. Under the provisions of the current (i.e. 1999) funding schemes, the levels of Community participation are subject to the following limits⁷: As far as projects in Objective 1 regions are concerned, a maximum of 75% of the total project cost and, as a general rule, at least 50% of public expenditure⁸. In Objective 2 and 3 regions, the ceiling is set at 50% of the total eligible cost, with a minimum of 25% of public expenditure. In cases of Community investments in companies, the cofinancing may not exceed 50% in Objective 1 and 30% in the other regions.

For the 2000-2006 period these general rate remain applicable, though some further restrictions apply. For investment in 'infrastructure generating revenue' the ceilings have been fixed at a maximum of 40% of the total cost in Objective 1 regions (50% in Member States eligible for the Cohesion Fund) and 25% in Objective 2 areas⁹. Furthermore, the rates of Community participation in investments in companies located in Objective 1 and Objective 2 regions have been limited to 25% and 15%, respectively.

⁷ See European Commission, 1999f.

⁸ In certain cases, the rate can rise to 80% (countries covered by the Cohesion Fund) or even 85% (most remote regions).

⁹ The regulations specify that these rates may be increased by 10% if the assistance is used for financial engineering.

Table 1: Conversion of Eligible Measures for Structural Fund Assistance

<i>Fund</i>	<i>1993-1999</i>	<i>2000-2006</i>
ERDF	<ul style="list-style-type: none"> - productive investment permitting the creation or maintenance of permanent jobs - investment in infrastructure, with a varying scope depending on the objective - indigenous development: local and SME development 	
ESF	<ul style="list-style-type: none"> - occupational integration of unemployed persons exposed to long-term unemployment - occupational integration of young people in search of employment - integration of persons exposed to exclusion from the labor market - promotion of equal opportunities on the labor market - adaptation of workers to industrial change - stability and growth in employment - strengthening human potential in research, science, and technology - strengthening education and training systems 	<ul style="list-style-type: none"> - <i>assistance for persons</i>: education and vocational training, aid for employment, higher education in science and research, new sources of employment - <i>assistance for structures and systems</i>: improving education and training systems, modernizing employment services, developing systems to anticipate qualification needs - <i>accompanying measures</i>: raising awareness, services, etc.
EAGGF-Guidance	<p><u>Measures linked to agricultural structures:</u></p> <ul style="list-style-type: none"> - supporting farming income and the maintenance of viable farming communities in mountainous or disadvantaged areas; start-up support for young farmers - improving the structural efficiency of holdings - encouraging the establishment of producers' associations - conversion, diversification, reorientation, and improvement of the quality of agricultural products <p><u>Measures encouraging rural diversification:</u></p> <ul style="list-style-type: none"> - developing rural infrastructure - encouraging investment in tourism - other measures such as the prevention of natural disasters, village renewal, protection of the rural heritage, development and promotion of forests, protection of the environment and the countryside and financial engineering 	<p><u>Measures targeting all rural areas in the EU:</u></p> <ul style="list-style-type: none"> - investment in agricultural holdings - start-up support for young farmers - professional training - support for early retirement schemes - compensatory allowances for disadvantaged areas - agri-environmental measures - processing and marketing of agricultural products - development and promotion of forests - measures for the adaptation and development of rural areas

Source: European Commission, 1999f, p. 24f.

Figure 1: Conversion of Priority Objectives of EU Structural Policies



