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I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 3/2000

**on the European Social Fund and the European Agricultural Guidance and Guarantee Fund
(Guidance section) — Measures to assist the employment of young persons together with the
Commission's replies***(pursuant to Article 248(4), second subparagraph, EC)**(2000/C 100/01)*

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GENERAL INTRODUCTION

1. Successive European Council conclusions and resolutions, Essen 1994, Madrid 1995, Florence 1996, Dublin 1996, Luxembourg 1997, Vienna 1998, and the Amsterdam Treaty have reaffirmed that the fight against unemployment is a priority task of the Community and its Member States. Part I of this report deals with measures under the European Social Fund (ESF). Part II of the report deals with aid under the EAGGF Guidance Section. The purpose of this audit was to examine and assess the management by the Commission and selected Member States of measures under the European Social Fund (ESF) to assist young persons in preparing for and obtaining employment and of measures under the European Agricultural Guidance and Guarantee Fund, Guidance Section (EAGGF Guidance) to assist young farmers setting up in business.

Summary of audit observations

2. The introduction of national action plans (NAP) provided an opportunity for coordinating and targeting employment policies. Monitoring and evaluation of the impact of ESF during implementation should steadily improve performance. The Commission has played an important role in this policy development (paragraph 23).

3. Young persons are one of the main target groups for ESF aid. However, the target group is not clearly defined and as a result the definitions applied by Member States vary between operational programmes (OPs) and Single Programming Documents (SPDs) and between measures and sub-measures and the age ranges from 14 to 40 years (paragraph 24).

4. The Court's audit and the Commission's analysis of the mid-term evaluation of ESF implementation during the Community support framework 1994 to 1999 (CSF2) showed that there were a number of weaknesses. There were insufficiently clear objectives including target groups and there is a need for more meaningful performance indicators. It is essential that these weaknesses are dealt with by Member States and that the improvements are monitored by the Commission (paragraphs 26, 27 and 58).

5. There is a lack of synergy between Funds in multifund operational programmes, operational programmes and Community initiatives, and between interventions in the Member States. National authorities should ensure a coordinated management of projects where a single project manager has projects under different objectives, which would increase effectiveness and reduce the risk of double claims. The Commission has not ensured sufficient

integration of efforts between the Directorates-General responsible for Structural Funds (paragraphs 30 to 34).

6. Operational programmes from the Community support framework for 1989 to 1993 (CSF1) have still not been closed. For CSF2 (1994 to 1999), there continue to be cases where national co-financing for ESF funded actions is delayed, and there are significant errors in declarations by project managers and by Member States to the Commission of expenditure incurred. Member States' administrations still do not correctly apply the definitions of 'final beneficiary' and 'expenditure incurred'. The level of overhead costs declared by project managers is often too high. There has been a lack of audit activity by some Member States despite the regulatory requirement and there is an absence of regular reporting of irregularities despite some indications that they are increasing. There remains scope for improvement in the procedures for selection and follow-up of projects (paragraphs 35 to 44).

7. The management and control system for Youthstart has improved in the second phase (1997 to 1999) but implementation still suffers from some of the weaknesses of the first selection round. The second selection round was unable to take into consideration the lessons of the first round as few projects had been completed (paragraphs 51 to 52).

8. The setting-up of worthwhile transnational partnerships for Youthstart has been adversely affected by differences in the number of partners and by the involvement of passive partners whose contribution is not planned and widely known. Project size, the lack of partnership coordination and the incomplete and unreliable database have also posed problems (paragraphs 54 and 55).

9. There is an absence of common rules on eligible costs for coordination of Youthstart. Dissemination of results must be improved so that they can be exploited on an EU-wide basis. It is almost impossible to evaluate the effectiveness of transnationality (one of the main reasons for having a Community initiative (CI) action), as the different projects within a transnational partnership are evaluated on a national basis (paragraphs 56 to 58).

10. The work performed by the Technical Assistance (TA) Agency has assisted the implementation of the CI 'Employment'. The Commission should take steps to ensure that the expertise gained in the implementation of TA is not lost (paragraph 59).

11. The introduction of certain financial facilities under EAGGF Guidance in favour of the setting-up of young farmers is important in combating unemployment for this target group. Assistance for agricultural investments in the form of capital grants and/or interest-rate subsidies involve complex national and regional administrative procedures. Implementation of EAGGF

Guidance measures was delayed due to late approvals of programmes and the internal control weaknesses. Delays in the implementation of projects have resulted, in some cases, in the beneficiaries becoming ineligible (paragraphs 71 to 77).

12. Similarly to the ESF, the EAGGF Guidance has shown the lack of clear objectives and of meaningful performance indicators (paragraphs 78 and 79).

PART I

ESF

Introduction

13. There are two main methods of delivery of ESF assistance to young persons: the mainstream ESF activities under the various Objectives 1 to 6 and the Community initiative (CI) Employment, where the Youthstart strand supports projects for young persons.

14. A number of types of actions to assist the fight against youth unemployment used by the Member States are co-financed by the ESF. Examples of these are projects to provide young persons with vocational qualifications and improved skills, counselling and guidance, apprenticeships and training with work placements, and also wage subsidies for employers. The balance between the various types of action is a matter for each Member State but, with the encouragement of the Commission, there is an increased tendency for Member States to integrate the actions (1).

The Court's audit

15. The audit of youth employment measures was carried out at the Commission and in five main beneficiary Member States (Germany, Spain, France, Italy and the United Kingdom). The audit examined both legality/regularity and sound financial management aspects (clear targeting, evaluation of implementation, etc.). Evidence has also been drawn from the results of audits carried out for the Statement of Assurance in 12 Member States. In addition, the Court has audited the support given to the Community initiative (CI) Employment - Youthstart by the Technical Assistance (TA) Agency which is responsible for supplying assistance to all CIs.

Youth education and employment

16. In 1996, 48 million people were aged between 15 and 24 years (the range used by Eurostat for statistical comparisons of young and adult persons) in the European Union, 22 million of whom (46 %) were potentially active in employment terms, while 26 million were in education and training. Five million were unemployed, giving an unemployment rate for young people of 22 %, which was more than double that of the 25 to 59 age group. In 1998, the unemployment rate for young people was still 19,5 %. Statistics of unemployment rates appear in Table 1.

Table 1

Key unemployment figures

Unemployment rates % of active population

	1996	1997	1998
EU-15	10,8	10,6	10,0
B	9,7	9,4	9,5
DK	6,8	5,6	5,1
D	8,9	9,9	9,4
EL	9,6	10,0	10,7
E	22,2	20,8	18,8
F	12,4	12,3	11,7
IRL	11,6	9,8	7,8
I	12,0	12,1	12,2
L	3,0	2,8	2,8
NL	6,3	5,2	4,0
A	4,3	4,4	4,7
P	7,3	6,8	5,1
FIN	14,6	12,7	11,4
S	9,6	9,9	8,3
UK	8,2	7,0	6,3

Active population = people in work + unemployed looking for work.
Source: Eurostat — Harmonised unemployment rates.

Employment rates (15 to 64 years) (%)

(People in work/total population)

	1996	1997	1998
EU-15	59,9	60,1	60,8
B	56,3	57,0	57,3
DK	74,0	75,4	75,3
D	64,1	63,6	63,7
EL	54,9	54,8	55,6
E	46,6	48,0	49,7
F	59,7	59,4	59,9
IRL	54,9	56,4	56,4
I	50,6	50,5	50,8
L	59,1	59,9	60,2
NL	65,4	67,5	69,4
A	67,3	67,2	67,4
P	62,3	63,4	66,8
FIN	60,5	61,9	63,4
S	69,7	68,3	68,6
UK	68,7	69,7	70,2

Note: 1998 results for Ireland refer to 1997.
Source: Eurostat — European labour force survey.

Activity rates (15 to 64 years) (%)**Active population = people in work + unemployed looking for a job/total population**

	1996	1997	1998
EU-15	67,3	67,5	67,8
B	62,2	62,6	63,2
DK	79,5	79,8	79,3
D	70,4	70,6	70,7
EL	61,0	60,8	62,5
E	60,0	60,8	61,3
F	68,2	68,0	68,2
IRL	62,3	62,9	62,9
I	57,7	57,7	58,1
L	61,1	61,5	61,9
NL	69,9	71,5	72,6
A	71,1	70,9	71,3
P	67,5	68,2	70,2
FIN	71,7	72,8	73,1
S	77,1	76,4	75,5
UK	74,9	75,0	74,9

Note: 1998 results for Ireland refer to 1997.

Source: Eurostat — European labour force survey.

**Unemployment rates as a % of active population
(15 to 24 years)**

	1996	1997	1998
EU-15	22,0	21,1	19,6
B	23,1	23,0	22,1
DK	10,6	8,4	7,4
D	10,0	10,8	9,8
EL	31,0	30,8	29,8
E	41,9	39,1	35,4
F	29,2	29,1	26,6
IRL	18,2	15,3	11,5
I	33,5	32,7	33,2
L	8,5	8,1	6,9
NL	11,7	9,6	7,8
A	6,2	6,7	6,6
P	16,8	15,1	10,6
FIN	27,9	25,2	23,5
S	20,5	20,6	16,7
UK	15,5	14,2	13,6

Source: Eurostat — Harmonised unemployment rates.

17. The comparative importance of youth unemployment is shown in *Table 1*. In 1998, the highest EU youth unemployment rates ⁽²⁾ were in Greece (29,8 %), in Spain (35,4 %), in France (26,6 %) and in Italy (33,2 %). During the last three years there has been a downward trend in youth unemployment, with Spain, Ireland, Portugal and Finland showing significant reductions ⁽³⁾.

Budgetary importance

18. The total amount planned for ESF expenditure 1994 to 1999 is ECU 49 000 million at 1999 prices. *Table 2* shows the total amounts of ESF planned to be spent annually in the period 1994 to 1997 under the second Community support framework (CSF2), with details of the execution known up to November 1999.

19. In non-Objective 1 regions of Member States, Objective 3 is used as the main means of delivering ESF measures. The purpose of Objective 3 is to combat long-term unemployment and facilitate the integration into working life of young people and of persons exposed to exclusion from the labour market and to promote equal employment opportunities for men and women. ESF Objective 3 funding is split between persons aged 15 to 24 years, and those aged 25 to 65 years. An average of about 37 % of mainstream ESF Objective 3 expenditure is spent on employment measures for young persons and a similar percentage is spent on measures for the long-term unemployed, see *Table 3*. The balance of the ESF Objective 3 expenditure is made under other mainstream priorities such as equal opportunities, and under the CIs, innovative pilot projects and technical assistance.

Table 2
ESF utilisation of funds by Member State and tranche

in billion ECU

	B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK	Totals (1)
Tranche 1994																
Initial plan	112 583	55 032	995 538	337 263	1 233 834	675 902	342 617	791 807	3 931	202 855	0	437 009	0	0	784 333	5 972 704
Commitments	153 237	71 218	1 000 218	334 079	1 407 319	718 718	339 163	751 063	5 305	205 368	0	433 293	0	0	825 386	6 244 367
Payments	110 338	54 037	809 675	170 948	1 112 841	522 256	322 400	354 037	3 896	176 401	0	372 576	0	0	661 404	4 670 809
Effective amount declared by Member State	77 086	42 991	544 563	136 959	1 121 457	385 443	313 231	59 463	3 682	151 468	0	287 029	0	0	655 179	3 778 551
Tranche 1995																
Initial plan	127 124	62 057	1 098 243	394 956	1 347 660	842 030	310 812	805 888	4 404	218 998	106 033	450 108	117 110	101 436	897 654	6 884 513
Commitments	156 993	89 643	844 895	399 402	1 342 468	662 709	306 603	450 442	5 218	181 290	151 823	460 120	149 677	159 076	889 796	6 250 155
Payments	122 549	63 404	623 680	325 388	1 240 987	483 954	303 380	346 457	4 630	152 367	115 010	428 704	72 584	77 717	824 084	5 184 895
Effective amount declared by Member State	92 887	44 367	460 685	221 852	484 991	534 313	300 287	212 438	3 916	174 425	25 919	451 973	11 690	1 796	682 391	3 703 930
Tranche 1996																
Initial plan	142 027	65 977	1 247 490	449 493	1 516 115	900 511	349 929	927 093	5 237	243 450	115 443	505 692	119 581	145 713	1 040 254	7 774 005
Commitments	126 970	56 297	1 217 809	124 617	1 404 589	687 426	352 958	785 436	4 100	216 684	93 662	541 979	72 413	49 700	895 811	6 630 451
Payments	111 277	65 007	1 080 516	149 265	1 560 381	654 187	331 185	448 097	4 080	213 698	72 040	473 799	88 088	44 939	914 551	6 211 110
Effective amount declared by Member State	93 667	48 284	1 056 815	282 339	1 531 857	684 882	330 233	444 611	4 287	195 976	56 563	468 492	55 400	55 207	947 942	6 256 555
Tranche 1997																
Initial plan	137 837	63 267	1 261 426	478 643	1 622 827	825 071	362 635	995 230	5 537	268 858	119 237	557 853	124 804	152 534	1 049 988	8 025 747
Commitments	143 463	63 220	1 052 479	342 647	1 544 903	630 284	359 739	1 409 747	5 901	283 044	109 086	389 280	143 210	105 453	447 713	7 030 169
Payments	111 549	53 497	1 229 694	366 858	1 361 783	788 803	359 198	605 975	5 355	213 637	103 435	504 166	119 345	113 135	743 633	6 680 063
Effective amount declared by Member State	99 723	52 083	964 072	336 455	1 413 989	1 178 536	342 629	109 904	4 583	79 810	130 432	321 198	90 610	107 120	551 912	5 783 056

(1) This column shows commitments and payments made in respect of each tranche in any year.

Note 1: Commitments can be higher than the initial plan because of Article 20(3) of Council Regulation (EEC) No 2082/93 (single commitments) and because of the yearly indexation of the programmes.

Note 2: The figures for 1998 will be available as of November 1999.

Source: Commission DG V (November 1998).

Table 3

Breakdown by Member State of the 'youth' and LTU (long-term unemployed) priorities. Objective 3 ⁽¹⁾ and unemployment rate for the active young population by Member State

Member State	Total ESF amount (1994 to 1999)	Youth priority amount		LTU priority amount ⁽³⁾		Unemployment rate in the young active population
	ECU million	ECU million	%	ECU million	%	
Belgium	401,9	86,1	21,4	134,2	33,4	20
Denmark	268,1	58,1	22,0	142,4	53,1	11
Luxembourg	20,7	3,1	15,0	5,5	26,6	9
Netherlands ⁽²⁾	923,0					11
Austria	334,0	22,9	7,0	113,8	34,0	7
Finland	258,4	82,2	32,0	171,5	66,3	42
Sweden	347,7	97,0	28,0	173,0	50,0	22
United Kingdom	3 177,6	1 265,8	39,8	1 208,1	38,0	15
Germany	1 682,1	442,0	26,0	944,1	56,1	10
France	2 562,4	976,6	38,1	690,7	27,0	28
Italy	1 316,2	566,0	43,0	421,2	32,0	34
Spain	1 494,5	743,7	49,7	519,9	35,0	42
Total ⁽⁴⁾	11 292,1	3 599,8	36,6	4 004,5	38,2	

⁽¹⁾ This table only shows Objective 3 expenditure. Other ESF expenditure on youth measures takes place under Objective 1.

⁽²⁾ For the Netherlands there is no clear division of amounts by priorities.

⁽³⁾ Long-term unemployed.

⁽⁴⁾ Comments: In general, the data in the table show that each Member State allocates funds according to the problems it considers important. A group of countries such as Italy, Spain, the United Kingdom and France spend a large part of the finance on young people, because the rates of unemployment among young people are very high. It is not impossible for the priorities to overlap in part, i.e. under the LTU there are also young people. The age of 25 years may be regarded as the most commonly used average for determining this target group, according to the Commission.

Source: Commission annual reports on the Structural Fund, Eurostat 1996.

20. For Objective 1 operational programmes (OPs), although there are measures which specifically aim at helping young persons from education into the workplace and at improving existing education and training systems, it is not possible to identify all the ESF expenditure in respect of young persons. This is because there is no clear separation of measures between the different age groups as the OPs are aimed at overall regional targets using all three Structural Funds, rather than solely human resources targets as under Objective 3.

The EU strategy for young unemployed

Council strategy

21. Following the special European Council on employment in Luxembourg on 20 and 21 November 1997 the Council was to draw up guidelines, according to the new title on employment in the Treaty of Amsterdam, to be taken into account in the national employment policies ⁽⁴⁾. The first employment guidelines (for 1998) were adopted on 15 December 1997 and Member States

then prepared, adopted and delivered their first national action plans (NAPs) by the end of April 1998.

22. The Council adopted four main lines of action (the four 'pillars'):

- (a) improving employability,
- (b) developing entrepreneurship,
- (c) encouraging adaptability in businesses and their employees,
- (d) strengthening the policies for equal opportunities.

Nineteen guidelines were adopted around the four pillars, setting specific targets to be regularly monitored. Four of these guidelines focus especially on youth employment ⁽⁵⁾.

Commission's analysis of the NAPs

23. The Court has examined the Commission's 1998 analysis of the Member States' NAPs. The Commission concluded in June 1998 that the NAPs were vague, making it difficult to assess the existence of strategy and the priority of measures and that they indicated general political priorities for 'improving employability' rather than producing operational plans. In addition, most had not quantified or specified targets and indicators showing the ESF aid that will be committed to achieving them, thus making it impossible to assess the effectiveness of the measures in ESF terms. Most Member States did not present a systematic analysis of the ESF-supported interventions. The Commission confirmed in September 1999, in its analysis of the year 1998, that the Member States recognise that concrete objectives have not yet been established.

The audit of mainstream ESF

Definition of a young person

24. In creating an EU strategy for the employment of young persons there is a need to define the target population for the measures to be undertaken, but the current ESF Regulation, Council Regulation (EEC) No 2084/93 (6), in contrast to Article 2 of the former ESF Regulation (EEC) No 4255/88, does not contain a specific age limit for young people. The audit found cases where the definition of a 'young person' varied between and within Member States depending on the fund, OP or measure, for example in France some measures for young people included persons aged 40, in Germany (Brandenburg) 27 and in Italy (Sicily) 32.

Evaluation of implementation

25. As noted above, appropriate targets and meaningful performance indicators have not been set. In certain Member States (7), an overall plan for using ESF to benefit young persons under Objective 3 had not been sufficiently developed and applied in the regions audited. This is confirmed by the Commission's examination of the national employment action plans. There were similar problems in identifying total ESF effort for young persons in the Objective 1 regions examined in Germany and Italy. In Spain a co-financed action using employment aids apparently created many thousands of permanent jobs for, among others, young persons. Most of the aid was spent on converting temporary jobs to permanent ones.

26. An example of the lack of focus concerned Germany (Brandenburg), where each year about 15 000 young people benefited from employment subsidies with an ESF contribution. The assistance is given to the training company as a lump sum per trainee totalling between DEM 3 000 and 7 000 (ECU 1 500 to 3 500) for the whole period of training (on average three years). The subsidies were paid without specifying qualifying trainees and professions. This led to a certain grant mentality in the private sector and to doubts whether additional jobs (positions for trainees) were created. To avoid dead-weight effects for the future, the Brandenburg authorities stopped using the measure in 1998 in order to concentrate the funds on other measures. However, at present, about 75 % of all apprenticeships participate in the public aid schemes.

27. The Court examined the Commission's analysis of the evaluations carried out by the Member States for young people on measures under Objectives 1 and 3 (8). The Commission (DG V) had found that, for Objective 1, the data produced using the existing monitoring systems were insufficient for evaluation purposes. The analysis shows that the results and impact of the programmes strengthening education systems have been poor and the links to vocational training systems need to be assessed.

28. The Objective 3 priority for young people does not cover a homogeneous group, either by labour market status (short-term unemployed, long-term unemployed, apprenticeship), or in terms of their qualifications and/or work experience. Moreover, young people may be included in other target groups, for example women, excluded persons, long-term unemployed. The Commission's evaluations for Objective 3 found serious gaps in the monitoring systems with respect to evaluation needs. Most of the Member States have problems in combining information from differing national monitoring systems with the generally unreliable data on the financial implementation of ESF.

29. The extent to which project and programme evaluation takes place varies from Member State to Member State and between regions. The Commission needs to assist the Member States in setting and using performance indicators.

Coordination of Structural Funds aid

Synergy between Funds

30. There are weaknesses within the Commission's own management coordination. In the multifund OPs the Commission Directorates-General do not have a common approach. Measures in the Member States which integrate the different Structural Funds are the exception. The Commission should give guidance to the Member States on how to better integrate the various Funds.

31. The Structural Funds Regulations ⁽⁹⁾ stipulate that the various Fund measures, together with those of the European Investment Bank (EIB), should be coordinated. In the future, the NAPs should ensure greater transparency of the support brought by the different Funds to the employment guidelines. The impact on investment and job creation concerning the granting by the Community of interest subsidies on loans by the EIB to small and medium-sized enterprises, within the context of its lending facility will be dealt with in a separate special report.

32. The United Kingdom has introduced the 'New Deal' programme which complements ESF measures. The audit noted that ESF places a greater administrative burden on project managers than 'New Deal'.

Synergy between ESF activities

33. There is a need to ensure synergy between the ESF actions and projects delivered by the human resources Objective 3 and the ESF delivered in the same regions using multifund Objective 5b. In addition, there is a need to manage the mainstream ESF and the ESF in the CIs to ensure a better flow of innovative ideas to the mainstream ESF and ensure that funding rules are coherent.

34. In 1997 the United Kingdom placed the management of Objective 3 under regional offices. Objectives 1 and 2 were already managed regionally. The change has made it easier to ensure concentration and synergy between objectives but weaknesses still exist as training providers that have projects under more than one objective are managed separately instead of together. This management structure which exists in several Member States should be improved in order to make overall management more effective and reduce the risk of double claims.

Specific observations on ESF financing

35. The Court has previously indicated on a number of occasions weaknesses in the ESF financing and co-financing systems. The observations shown below demonstrate that problems persist.

36. One factor which affects the overall amounts that Member States commit to the training effort is their approach to the national co-financing of ESF projects. Some Member States use unemployment benefit and allied social allowances, which would have been paid anyway, as national co-financing ⁽¹⁰⁾. While such co-financing is within the terms of the Regulations it does not increase financial support to the ESF actions ⁽¹¹⁾

37. In order to ensure timely and programmed implementation of ESF measures, it is necessary for Member States to review and report on the use of funding. This is not always done. The report attached to the request for the payment of the Objective 3 1997 balance for France indicated that the cumulative rate of implementation for young persons was substantially less than that for the long term-unemployed (55,6 % against 73 %). The Member State did not comment on this in its report and the Commission did not follow it up.

38. In respect of the OP for Sicily, Italy, the measure for young unemployed persons seeking work includes ECU 222,7 million for the period 1994 to 1999, which represents 51,4 % of the total amount in the OP. By 31 December 1997 execution had attained only 41 % (ECU 92,3 million). No explanation was given in the report from the region attached to the claim for payment, nor was there evidence that the Commission had followed it up.

39. In Sicily, according to the certifying body at regional level, the annual declarations of expenditure were drawn up on the basis of the payments which the promoters declared corresponded to the invoices paid. The audit findings showed that this was at odds with the real situation:

- part of the expenditure declared by the promoters (40 %) did not correspond to the invoices paid;
- furthermore, an examination of the regional accounts for 1995 and 1996 shows that, for this period, there was a delay in the payment of the national co-financing. This observation shows that a problem already highlighted by the Court still persists despite the efforts made by the Commission.

40. The request for the payment of the balance for Objective 3 1997 was presented by the French authorities to the Commission on 29 June 1998. A modification, which increased the total certified by FRF 21,2 million (ECU 3,2 million), was made on 16 September 1998. At the same time changes were made reducing the amounts due for 1994, 1995 and 1996, as a result of a lower number of beneficiaries. These weaknesses in the initial recording and reporting system have been corrected after Member State's *ex-post* control activities. In addition, the total eligible costs declared should have been reduced by any revenue from the projects co-financed by the ESF. The 1997 declaration showed receipts of FRF 291,8 million (ECU 44,5 million) which should have been deducted from the total eligible expenditure declared but were not.

41. The United Kingdom authorities grant a jobseekers allowance (JSA) (which may be likened to unemployment allowance). Rules for the payment of JSA require that, *inter alia*, a claimant should be available for work. Entitlement to JSA will be lost if the claimant works for more than 16 hours a week. Training, work (including work without remuneration) in order to practice the

theoretical training given, and private study, if they restrict a trainee's availability for work, are assimilated into the 16-hour rule. This has an effect on the type of courses that are designed for JSA claimants in that they do not, in general, exceed 16 hours in total per week, in order to avoid loss of JSA by the trainees. Training courses limited to 16 hours per week may not always provide the most efficient and effective delivery of training.

42. There is a need to ensure that the project costs charged to overheads are reasonable and represent value for money. The regulatory framework on overheads ⁽¹²⁾ leaves room for interpretation for Member States and project managers. Overheads will vary with the type of project, for example they will represent a higher proportion of expenditure for guidance and counselling projects whereas they will be much lower for projects granting employment aid. The Court examined sample claims to see the size of the overheads. In some Member States, for example France and Germany, the authorities use notional sums per trainee hour, in such circumstances it is not possible to establish the amounts that are allocated for overheads.

43. In some German projects in Brandenburg no overheads were charged, the cost being borne by the administration and, in general, they were less than 10 %. As regards the OP managed by the Italian Ministry of Universities, it was found that the level of overheads in the University of Catania (Sicily) amounted to 32,7 %. In the United Kingdom the percentage claimed for a college project was about 30 %. In general project overheads in the United Kingdom ranged between 28 % and 50 %.

44. The Court's audit noted a number of weaknesses in relation to the management of ESF projects by Member States' authorities. These observations concerned both the legality and regularity of operations and also the sound financial management of transactions, for example:

- delays in the implementation and closure of operational programmes;
- failure to respect the requirement to declare eligible expenditure incurred;
- weaknesses in management of multiannual projects;
- inconsistent application of regulations leading to unequal treatment between Member States;
- weaknesses in claiming systems, increasing the risk of the declaration of ineligible expenditure;
- inadequate audit activity and failure to monitor irregularities;
- weaknesses in the selection and follow-up of projects.

The Commission should examine the possibility of introducing a pilot exercise on the mapping of unemployed persons and job opportunities in order to better orient ESF funding and overall employment effort.

Employment-Youthstart initiative

45. This section of the report examines the implementation of the Youthstart strand of the CI 'Employment' ⁽¹³⁾. During the period 1994 to 1998 there were two selection rounds during which 1 306 projects were selected. The Court's sample related to the first selection round in which 495 projects were retained. The Court selected four transnational partnerships covering the five Member States and visited each partner (nine in all) to evaluate the implementation.

Role and aims of Employment-Youthstart

46. Youthstart is one of the four strands of the Community initiative programme 'Employment' ⁽¹⁴⁾. The Youthstart strand aims to help Member States to develop projects to integrate young people without basic qualifications or training into the labour market and to assist the development of networks of partnerships and experience. These projects funded under the CI 'Employment' should have: transnationality, innovation, a bottom-up approach, a multiplier effect and complementarity with related EU actions.

47. The implementation of the Community initiatives is mainly the responsibility of the Member States who have set up for this purpose national support structures (NSS) (which are national or sometimes regional TA Agencies). The role of the Commission includes the coordination and the follow-up of the implementation in the Member States. In order to be able to assume this role the Commission has entered into a TA contract financed by part B of the budget for ECU 5,6 million per annum renewable four times (i.e. ECU 28 million in total).

Budgetary importance

48. The European Union funding of the Employment initiative for the period 1994 to 1999 is ECU 1 835 million (at 1996 prices) and the contribution in respect of Youthstart is ECU 441 million (24 %). *Table 4* gives the budgetary execution of the Youthstart strand by Member State. A maximum amount of 4 % may be spent on TA in the Member States, to support the preparation and implementation of projects, and should ensure that a coordinated approach will be followed.

Table 4

Budgetary execution of Youthstart

(in billion ECU)

Country	EU budget period 1994 to 1999	National public contributions 1994 to 1999	Total	Commitments 1994 to 1998	Payments 1994 to 1998
Belgium	12 644	14 367	27 011	12 644	6 058
Denmark	3 333	3 508	6 841	3 181	2 545
Germany	46 789	38 145	84 934	46 789	22 671
Greece	14 436	(¹)	14 436	8 802	5 257
Spain	104 283	55 003	159 286	71 027	55 477
France	44 028	43 116	87 144	27 734	18 950
Ireland	18 306	5 526	23 832	13 197	10 886
Italy	94 193	51 351	145 544	52 110	22 467
Luxembourg	100	100	200	100	82
Netherlands	14 918	15 135	30 053	10 534	7 670
Austria	4 542	4 656	9 198	4 542	3 634
Portugal	8 580	2 860	11 440	4 658	3 921
Finland	7 219	8 699	15 918	7 219	3 609
Sweden	5 672	5 386	11 058	5 672	4 538
United Kingdom	49 605	58 120	107 725	33 641	23 273
Total	428 648	305 972	734 620	301 850	191 038

(¹) Not known.

Source: DG V Commission.

Audit of the implementation of Employment-Youthstart*Age qualification for Employment-Youthstart*

49. A Commission communication to the Member States (¹⁵) sets as the target group young persons of less than 20 years of age. This may be varied: 'In exceptional and duly justified circumstances, Member States may include young persons over the age of 20 ...'. Some Member States have changed the age limit for Youthstart, for example Germany (Brandenburg) has admitted young persons of up to 26 years of age to projects, while the age limit in Greece is 24 years of age and Austria, in some cases, applied 15 to 17 years.

Selection procedure

50. Projects are selected by the Member States. The project managers of selected projects then contact each other in order to create transnational partnerships. In order to facilitate the partner search, the TA Agency of the Commission has created a database called 'consolidated module' which contains information (¹⁶) on individual projects. During the first selection round in 1995, 486 projects were selected and in the second round in 1997, 804 projects.

51. The selection procedure for the second round of projects funded under the Employment CI showed significant progress in the coordination between the Member States, particularly due to the introduction of a common timetable, the use of the common database to construct the transnational partnerships and in the

removal of the requirement to indicate the transnational partners in advance. However, other features adversely affecting the implementation of the projects remain:

- (a) few Member States require that the proposal contains an indication of the identity of the two partners and a description of the work to be performed by the proposed partners;
- (b) ESF could be used to fund the search for partner projects. Six Member States did so, but the funds per project varied between ECU 2 500 in Belgium and ECU 14 000 in the United Kingdom, leading to unequal treatment between project managers;
- (c) the Commission gave no guidelines on the funds to be made available for transnational cooperation. This has led to a large difference in the amounts available for project promoters to prepare the transnational partnership.

52. The selection system still does not fully assist the creation of worthwhile transnational partnerships. At present an overall coordination of the transnational partnerships, including planning, budget, evaluation, implementation and dissemination is not sufficiently ensured. Frequently, the transnational component consists of a visit to partners and an exchange of information on the activities performed. Seldom is a common project developed.

Absence of reliable information

53. The data concerning transnational partnerships held on the 'consolidated module' operated by the Commission's TA Agency are unreliable as they are based on information supplied in respect of individual projects and not transnational partnerships. Some projects indicated other projects as their partners but those latter partners did not show similar reciprocal information. Thus, the Commission is unaware of the number of partnerships formed or indeed, the projects within those partnerships. Indications of the unreliability of the systems, such as the record that seven projects in the first round and 87 projects in the second round were being financed although they were recorded as having no partner, were not followed up. Given that cooperation via transnational partnerships is one of the key elements of the CIs, this apparent absence of basic information highlights a major weakness in the system which should be improved.

54. Once a transnational partnership is established, one or more partners may stop their project. This information is, in general, not recorded in the database. The development of a partnership is thus unknown by the parties responsible for the implementation of the CIs. Some partnerships showed partner projects which had not been selected by the NSS. These unapproved partners are not funded by Youthstart and although the partners may participate actively in a selected project, no complete information on those partners exists within the management structures of Youthstart. Indeed, the different partners do not always know that unapproved partners are involved in the project.

55. The Court has previously observed⁽¹⁷⁾ the weakness that transnational partnerships do not make one of the partners responsible for the coordination and management of the partnership.

Coordination and dissemination

56. The interpretation of eligible costs varies between the Member States. For example in one Member State the cost of an external coordinator is not eligible, whereas in others it is. This has led in one of the partnerships audited to costs of coordination being paid through and claimed by the project in another Member State.

57. In order to obtain a multiplier effect, dissemination is important, but a separate budget for those activities is not required for each project. Dissemination is mainly seen by project managers as the responsibility of the NSS but the latter do not undertake dissemination systematically. The Commission should further encourage the approach of looking actively for opportunities to implement the results of a project in the mainstream ESF.

Mid-term evaluation

58. The main results of the Court's audit were confirmed by the Commission's mid-term evaluation, which drew the following conclusions:

(a) there were delays in the start of projects although progress was made for projects selected in the second selection round;

(b) there was a heavy administrative workload due to the nature of the selection procedure;

(c) there were problems in the development of transnational partnerships;

(d) the dissemination of results strategy should be strengthened;

(e) there were inadequate follow-up procedures by some Member States;

(f) a greater effort is needed to develop success indicators.

Technical assistance

59. The Commission has not developed a specific procedure for monitoring the total amounts spent on TA for CIs in the Member States. A system should be laid down to monitor the implementation of this expenditure.

60. The deadline for the Commission and the Member States to commit expenditure for the CIs is 31 December 1999. The deadline for the implementation of projects is 31 December 2000 and the deadline for the submission of the final claim by the Member States is 30 June 2001. As the TA contract ends before the projects are finished, the Commission should ensure that this situation will not adversely affect the finalisation of this Community initiative.

PART II

EAGGF GUIDANCE**Introduction**

61. According to Eurostat⁽¹⁸⁾, in 1997 there were approximately seven million farms in the European Union of 15 and 6,8 million of these were owned by individual farmers. More than 55 % of farmers were aged above 55 years, and only 7,6 % were below 35 years, whereas 28,4 % were above 65 years of age (see Table 5).

Table 5

Number of farmers in the European Union by age group

	Total number of holdings	Holder's being a natural person (persons)	Number of holdings owned by individual farmer				
			age < 35 years	age 35 to 44 years	age 45 to 54 years	age 55 to 64 years	age 65 years and over
	1	2	3	4	5	6	7
1997 average	6 989 130	6 868 720	521 810	1 085 650	1 495 350	1 815 480	1 950 420
1995 average	7 370 040	7 269 230	570 740	1 106 900	1 575 090	1 994 540	2 021 950
			(3:2)	(4:2)	(5:2)	(6:2)	(7:2)
Share in 1997			7,60 %	15,81 %	21,77 %	26,43 %	28,40 %
Share in 1995			7,85 %	15,23 %	21,67 %	27,44 %	27,82 %

Source: Eurostat New Cronos, theme 5-eurofarm-ef-main.

62. Average employment in agriculture dropped from 5 % of the working-age population (persons aged 15 to 64) in 1985 to 3,1 % in 1997 (see Table 6) and varied in 1997 from 11,4 % in Greece to 1,3 % in the United Kingdom and Belgium. Table 7 shows the number of young farmers receiving aid under the relevant measures from 1994 to 1997.

Table 6

Total employment in the agricultural sector as a share of total working-age population (15 to 64 years)

(in %)

Member State	Agriculture 1985	Agriculture 1997
Belgium	1,7	1,3
Denmark	5,1	3,0
Germany	2,9	2,1
Greece	18,1	11,4
Spain	8,1	4,1
France	4,7	2,7
Ireland	8,3	6,0
Italy	6,0	3,5
Netherlands	2,8	2,6
Austria	6,1	4,8
Portugal	13,8	9,0
Finland	8,6	4,5
Sweden	3,9	2,0
United Kingdom	1,6	1,3
Total EU-14	5,0	3,1

Source: Employment rates report 1998, Commission (DG XXII).

63. The administrative and financial difficulties encountered by young persons in taking over agricultural holdings are compounded by important social and structural problems. The purchase or leasing of good land, technical improvements and investments for specialisation and the purchase of production quotas to make the farm more competitive are very expensive. In rural regions, the lack of essential social services (health, education, leisure, transport, etc.) causes depopulation. In addition, the difficult working conditions and unreliable income render the agricultural profession less attractive to the young.

64. The European Union has introduced a number of measures to help young farmers in particular. The most important are those financed under Objective 5(a) (improvement of agricultural structures), which aim to help farmers to take over an agricultural holding. Council Regulation (EC) No 950/97 (amending Regulation (EEC) No 2328/91) provides aid for setting up young farmers (under 40 years of age) through a system of aid for investments in agricultural holdings, comprising: investment aids in the form of capital grants or interest-rate subsidies (Article 7), setting-up aid in the form of capital grant (Article 10) and additional investment aid (Article 11). These provisions aim at improving the viability of individual farms and are intended for existing farmers as well as young farmers setting up in agriculture for the first time. In 1997, the number of young farmers under 35 years was 521 810⁽¹⁹⁾. The overall aid allocated under Articles 10 and 11, according to Commission data was ECU 956,8 million for the period 1994 to 1997. About 25 000 young farmers benefit from this facility every year. To benefit from investment aids, farmers are required to present and have approved a material improvement plan (MIP) (see Table 8).

Table 7

Regulation (EC) No 950/97 - Setting-up aid for young farmers (Article 10) — Additional aid for investments for young farmers (Article 11)

Member State	Number of beneficiaries									
	1994		1995		1996		1997		1994 to 1997	
	Article 10	Article 11	Article 10	Article 11	Article 10	Article 11	Article 10	Article 11	Article 10	Article 11
Belgium	844	368	628	510	931	616	853	594	3 256	2 088
Denmark	438	420	514	394	545	419	444	304	1 941	1 537
Germany	5 145	629	3 845	594	2 399	680			11 389	1 903
Greece	705	251	1 085	371	1 691	415	2 974	1 082	6 455	2 119
Spain	4 713	2 643	5 621	2 774	5 914	2 065	(²)	(²)	16 248	7 482
France	7 245	2 277	7 787	2 710	8 677	2 718	8 894	2 561	32 603	10 266
Ireland	357	290	884	32	1 167	31	(²)	(²)	2 408	353
Italy	2 213	487	1 711	565	1960 (³) (²)	516 (³) (²)	(²)	(²)	3 924	1 032
Luxembourg	(¹)	(¹)	72	41	67	68	49	29	188	138
Netherlands	(¹)	94	(¹)	28	(¹)	12	(¹)	(²)		132
Austria	(¹)	(¹)	(¹)	(¹)	1 671	1 393	1 299	1 285	2 970	2 678
Portugal	1 059	1 025	1 190	1 273	806	916	871	1 046	3 926	4 260
Finland	(¹)	(¹)	(¹)	(¹)	981	48	539	148	1 520	196
Sweden	(¹)	(¹)	114	(¹)	176	0	163	(¹)	453	
United Kingdom	(¹)	22	(¹)	47	(¹)	5	(¹)	1		75
Total per annum, per Article	22 719	8 486	23 451	9 337	26 985	9 902	16 086	7 050	87 281	34 259
Total Article 10 + Article 11	31 205		32 788		36 887		23 136		121 540 (⁴)	

(¹) Scheme not applied.

(²) Data not yet received.

(³) Average.

(⁴) From the total of 121 540 beneficiaries it can be deduced that the average number is approximately 30 400 beneficiaries per year. However, beneficiaries may choose to receive either only Article 10 assistance or a combination of both Article 10 and Article 11. Therefore, a part of the 34 259 Article 11 beneficiaries are included in the 87 281 Article 10 total. Thus, the yearly average is less and this explains the difference from the 25 000 beneficiaries mentioned in paragraph 64 of the Report.

Source: Commission EEC (1999) — DG VI.

Table 8

Financial aid for the installation of young farmers in the European Union

Country	Article 10(2)(a) Installation grants, capital subsidies	Article 10(2)(b) Installation loans for beneficiaries	Article 11 Supplementary aid PAM (¹)
Belgium	No capital grants on a national basis, but some in the Walloon region. BEF 120 000 (ECU 2 800) for favoured areas. BEF 140 000 (ECU 3 300) for less-favoured areas + provincial aid.	Subsidies of 5 % over 18 years for the amount of ECU 20 000 covered by the EAGGF, i.e. a borrowed capital of around BEF 3 100 000 (ECU 72 000) over 18 years, with a three-year waiver. The interest payable by the farmer may not be < 3 %. If the loan exceeds the amount of BEF 3 100 000, national State aids are used.	Capital grant equivalent to 25 % of the SI (subsidy for installation) granted for subsidised investments, within the framework of the scheme (SI of a minimum 5 % of the remaining 3 % payable).

Country	Article 10(2)(a) Installation grants, capital subsidies	Article 10(2)(b) Installation loans for beneficiaries	Article 11 Supplementary aid PAM (¹)
Denmark	Grant linked to an investment financed by a State loan: during the first 10 six-monthly repayments of the loan (five years), a subsidy equivalent to the six-monthly repayments, increased by a contribution towards management costs. Twenty-year loan granted by the DURL (²), < 23 % of the commercial value of the holding. Maximum = DKK 1 million (ECU 127 000). Subsidy estimated at DKK 110 000 (ECU 14 000) by the Ministry of Agriculture.		Capital subsidies: — for buildings: 8,75 % of building costs, — for machinery and installations: 5 % of purchase price or installation cost (=added to the aid agreed upon by PAM).
Germany	Federal State <i>Länder</i> framework scheme: grant linked to the investment: maximum DEM 15 000 (ECU 7 200) for a minimum investment of DEM 35 000. some <i>Länder</i> grant less: DEM 12 000, others more: DEM 18 000 (additional regional payment of DEM 3 000).	Additional aid from the agricultural credit programme (AKP) for small and medium-sized holdings: Additional discount of 1 point (4 % in favoured areas – 6 % in less-favoured areas), for a loan of up to DEM 143 000 ECU 73 100 per MPU (³)	Additional aid from ESF programme in the form of: — Discount of 1 % or more. — Subsidy of up to 5 % of the amount of the subsidised loan, or, — Subsidy: 5 % of the expenses eligible to obtain a grant.
Greece	Grant amount varies according to the volume of work required on the holding. — 4 million drachma per beneficiary owning a holding that requires a work volume of = or < 1,5 UTH, — amount > for holdings that require a work volume of > 1,5 UTH.	Maximum 5 % discount over 15 years.	Subsidy increased for investments made within an improvement scheme (PAM).
Spain	Variable grant of ECU 2 000 to ECU 6 000, according to type of transmission: — 2 000 if the inheritance does not involve compensation, — 6 000 when setting up outside the family circle or with a cooperation or participation agreement of over 50 % of the business capital, — ECU 4 000 when the total cooperation and participation agreement is less than 50 % of the business capital.	Maximum discount of 5 % over 15 years. Capitalised value < ECU 7 000.	Supplement of 25 % on the aid towards the improvement scheme (PAM).
France	DJA (⁴) modulates geographically between FRF 52 000 (ECU 7 500) and FRF 235 400 (ECU 34 000) (setting up of young married couples in mountainous areas).	Special loans aimed at financing investments in fittings and property involved in the transfer of the business. Interest rate of 2,55 % or 3,8 %, depending on the area (less-favoured areas, plain areas), with a maximum duration of 15 years. Duration of the benefit = 15 years in less-favoured areas and 12 years in plain areas. The maximum amount that a young farmer can borrow at those rates is FRF 720 000 (ECU 109 763).	Loans for investment in modernisation, within the framework of a PAM: similar rates as for special loans (Article 10(2)(a)).
Ireland	Grant of IEP 5 600 (ECU 7 500).	No discount loans.	PAM supplement.
Italy	Grant limited to ECU 7 500 in general.	15-year 5 % interest discount.	25 % supplement to normal aid.

Country	Article 10(2)(a) Installation grants, capital subsidies	Article 10(2)(b) Installation loans for beneficiaries	Article 11 Supplementary aid PAM ⁽¹⁾
Luxembourg	Grant of a maximum amount of LUF 400 000 (ECU 10 000).	Subsidised loans. Maximum 5 % discount (with a minimum payable by the farmer: 20 years). Limit of loans depends upon a price/ha. Equivalent to the value of the agricultural yield.	25 % supplement to normal aid.
Netherlands	Grant of NLG 37 000 (ECU 10 000).	The NLG 37 000 grant is to cover the 12,5 % of the interest on bank loans or family loans lasting > or = 5 years, with a maximum amount of NLG 300 000 (ECU 129 000).	25 % increase of the PAM grant. For all farmers: grant equivalent to a discount of 1,5 % of the interest paid on loans — maximum NLG 100 000 per holding. Discount of up to 4,5 % for investments beneficial to the environment.
Portugal	Grant of ECU 7 500.	Discount of 5 % of interest over 15 years for loans used for investments connected to the house. Capitalised value < ECU 6 000.	PAM supplementary aid = 25 % (minus national supplement)
Austria	Grant of ATS 125 000 (ECU 9 300) depending on: — a minimum investment of ATS 200 000 (ECU 14 800), — a minimum eligibility level.	Subsidy of 25 % of the cost of maximum loan of: — ATS 1 200 000 (ECU 89 285)/MPU — ATS 2 400 000 (ECU 178 571) per holding.	Compulsory PAM: minimum standards: animal welfare, environment, maximum 2,5 LSU ⁽⁵⁾ /ha. Two subsidies that may be combined: subsidy on investment (between 13 % and 58 % of the total investment), interest discount: 50 % to 75 %.
Finland	Maximum grant of FIM 70 000 (ECU 12 038). The beneficiary may not receive more than ½ or ¼ of this amount.	Possibility of a loan at 5 % interest for a maximum amount of FIM 70 000 (ECU 12 038).	Additional aid of up to ¼ the amount of the initial aid.
Sweden	Aid over five years with a payment of around 6 000 ECU/year during the first three years and ECU 3 000 the fourth and fifth year. This amount may be smaller if the farmer only works part-time.		
United Kingdom	No installation grants are available.	No specific installation grants.	25 % increase on the aid granted within modernisation schemes, in the form of subsidies.

⁽¹⁾ PAM: material improvement plan.

⁽²⁾ DURL: Danish Farming Real Estate Credit Organisation.

⁽³⁾ MPU: manpower unit.

⁽⁴⁾ DJA: dotation jeune agriculture (young farmer allocation).

⁽⁵⁾ LSU: livestock unit.

Source: Conseil Européen des Jeunes Agriculteurs (CEJA), Bruxelles.

65. This facility should respect the principles of the CAP reform, namely the rationalisation of agricultural structures and the avoidance of surpluses.

The Court's audit

66. This chapter examines the measures taken by the Commission in coordination with the Member States to ensure efficient

management of EAGGF Guidance resources for assisting young farmers in their effort to make farming their principal economic activity. The audit examined both sound financial management and legality/regularity aspects.

67. The audit was carried out at the Commission (DG VI) and in five Member States (Germany, Spain, France, Ireland, and Italy) with a focus on Objective 1 regions, and was based on the examination of a representative sample of final beneficiaries.

Implementation of Articles 10, 11 and 26 to 28 of Council Regulation (EC) No 950/97

68. In implementing Regulation (EC) No 950/97 national authorities have issued guidelines. *Table 8* shows the various options, and the maximum amounts that eligible beneficiaries may obtain when applying for setting-up aid. The level of assistance varies even between the different regions within the same Member States.

69. Between 1994 and 1997, all Member States applied the aid scheme under Article 10, except the United Kingdom and the Netherlands. At the end of 1997, the total number of beneficiaries under Article 10 was 87 281 (see *Table 7*, footnote 4). There is an increasing trend in Greece, Spain, Ireland, Portugal and, especially, France, but it is negative in Germany and Austria. France has the largest number of young farmers receiving assistance (37 %), followed by Spain (18,4 %) and Germany (12,7 %), whereas Italy has only 4,6 %. Under Article 11, 34 259 young farmers received aid in the same period. Most were in Spain (20,6 %), France (30 %) and Portugal (11,8 %) (see *Table 7*).

70. There is a preference for direct grants rather than interest subsidies on loans. One of the reasons given is that direct grants do not involve the complicated and time-consuming administrative procedures and controls that interest subsidies involve.

71. However, the Court has observed on several occasions, most recently in its Annual Report concerning the financial year 1997 (paragraph 3.21), that within structural assistance loans should, in general, play a suitable part and should be coordinated with subsidies. In this context, a strict application of Article 5(1)(c) of Regulation (EC) No 950/97 would further reinforce the effectiveness of the coordination between loans and grants as support instruments for young farmers (in the framework of Article 11 of Regulation (EC) No 950/97).

Definition of 'setting-up' date

72. According to Article 10(1)(c) of Regulation (EC) No 950/97: 'Member States may grant setting-up aid to young farmers less than 40 years of age if the occupational qualifications are satisfactory at the time of setting-up or at the latest two years thereafter'. However, the implementing regional circular in Sicily (approved by the Commission) laid down that the farmer, in order to be eligible for EAGGF Guidance assistance, should have obtained the professional qualification at the latest two years after the notification by the region of the granting of aid. Since the notification of the grant decision by the region to the beneficiary was delayed by up to two years the beneficiaries completed their professional

training after the date limit and three of the six beneficiaries audited in Sicily should not have been considered eligible (professional qualifications obtained after the regulatory deadline of two years from the setting-up date), and one for not having obtained the necessary qualifications.

73. The regional authorities in Andalusia have interpreted the notion of first set-up as the date of the decision granting the aid. This does not comply with the national guidelines established by the Ministry of Agriculture. Moreover, the verification of the starting date for the vocational training becomes more difficult.

Lack of audit trail for interest-rate subsidies

74. Under Articles 10 and 11 of the Regulation in certain circumstances recipients of aid for young farmers may receive both a single premium and interest-rate subsidies on loans contracted. Member States which use this facility apply annually to EAGGF Guidance for reimbursement of its share of the interest-rate subsidies incurred.

75. Thus, in France, accredited banks submit to the French administrative authorities accounts which invoice the interest-rate subsidies. However, the French authorities are reimbursed from the EAGGF budget, not on the basis of expenditure incurred (declared by the banks) as laid down in Article 21 of Regulation (EEC) No 2082/93⁽²⁰⁾, but on the basis of an independent mathematical calculation made by the authorities themselves (DDA)⁽²¹⁾. The same applies to loans granted under Article 7 of Regulation (EC) No 950/97, which is not directed at young farmers.

Internal control systems

Planning difficulties, delays and internal control weaknesses

76. The late approval by the Commission on 28 September 1995 of the operational programmes led to the late implementation of the measures covered. In Sicily for 1995 the implementation of measures covering young farmers (Articles 10, 11 and 28) was 1,3 % of the total expenditure instead of the 50 % initially targeted.

77. In Spain, the Court, in the course of its audit of the procedures for certifying expenditure between the regional, national and Community levels, noted errors in the statements drawn up in 1997 by the national authorities and in respect of the application of Articles 10 and 11 of Regulation (EC) No 950/97 for Andalusia.

Evaluations

78. In Spain an evaluation of the implementation of Regulation (EC) No 950/97 was to be carried out at Member State level during 1999. Some of the conclusions on the mid-term assessment of the OP as a whole reveal the absence of homogeneous indicators and state that the effectiveness of the OP is measured solely on the basis of the degree of financial implementation, and not on the actual effect of the measures.

79. In Italy an evaluation report concerning the implementation of Regulation (EC) No 950/97 was produced in August 1998 only for the Italian non-Objective 1 regions. In Ireland an evaluation study for 1994 to 1996, published in February 1997⁽²²⁾, stated that the first set-up aid scheme did not make a significant contribution to earlier transfers of farms to young farmers. It concludes that while promoting the entry of young people into farming is the main objective of the scheme, it is very difficult to find any real effect added by the scheme.

PART III

CONCLUSIONS

80. The Court already observed in its Annual Report concerning the financial year 1995 (OJ C 340, 12.11.1996, Chapter 6, paragraph 6.135) that the resources devoted to the European social policy were not planned and used in a way that was closely targeted towards achieving the priority task of fighting unemployment and called for an in-depth reappraisal of the methods used by the Commission and the Member States to target and deliver the aid. The audits carried out in 1998 have shown that significant problems remain in the implementation of the European Social Fund. The impact of the ESF on the fight against youth unemployment, representing an estimated 40 % of the ESF expenditure, is not known. The Commission and the Member States need to continue to improve the targeting of funding, the definition of clear objectives, ensure that reliable data are available and that the various types of financial efforts are integrated. Such improvements will enable the Structural Funds to achieve a better impact.

81. The mid-term evaluation has had, in the main, too little impact on policy implementation in the current programming period (1994-99). The evaluation process — which should now include final evaluations of measures — has to be implemented more effectively by the Commission and the Member States if it is to influence policy in the next programming period.

82. The findings of the audit concerning ESF financing show that much greater effort is required to bring about substantial improvements in the implementation of ESF actions for young

people by Member States. This means essentially improvements to the procedures for selection and follow-up of projects, the removal of problems associated with the funding of multiannual courses and with the inappropriateness of some of the national rules impacting on ESF projects, a correct application of the definition of 'final beneficiary' and 'expenditure incurred' and better control of the often high level of overhead costs. The Commission and the Member States need to consider ways of ensuring that the level of overhead costs declared by project managers is justified.

83. The Court stated in its Annual Report concerning the financial year 1995 (OJ C 340, 12.11.1996, Chapter 6, paragraph 6.136) that there were no effective sanctions against those Member States that failed to meet the conditions for receiving a Community subsidy, and that the system for recovering unduly paid amounts needed to be improved. Since that date, the Commission has made a number of improvements in financial control but the question of sanctions remains unresolved.

84. There is a need to improve the synergy and coordination of multifund interventions for the next programming period. Efforts should be made to simplify the administrative structures and procedures in the Commission and in the Member States. Management structures should ensure an effective coordination between and within Structural Funds and with the European Investment Bank (EIB). Such improvements are required to attain an improved coordinated and integrated approach for intervention under the Structural Funds. At present, the norm is for structural interventions to be planned by each Ministry separately.

85. Only rudimentary consideration, in isolated cases, has been given to the type of finance — subsidies, loans or interest-rate subsidies. The tradition of using subsidies, which has existed since the Structural Funds were launched, has become entrenched. Changes in the basic conditions which may possibly have occurred in the meantime are not taken into consideration.

86. The implementation of the CI Employment-Youthstart has displayed a number of weaknesses. The lack of data on projects and weaknesses in management by Member States and the Commission, including the TA contract, have reduced the effectiveness of the initiative. The Commission should take a more active role in coordination.

87. The EC Treaty⁽²³⁾ stipulates among other things that, in working out the common agricultural policy, account shall be taken of the particular needs resulting from the social structure in agriculture. The Court has been unable to establish the existence of an overall strategy or plan in respect of the financial contribution made by the ESF and EAGGF Guidance for the benefit of young farmers. Any impact since 1994 is still undiscovered.

This Report was adopted by the Court of Auditors in Luxembourg at its meeting of 26 and 27 January 2000.

For the Court of Auditors

Jan O. KARLSSON

President

NOTES

- (¹) (a) Counselling to identify possible employment areas and the setting of a plan to achieve them;
 (b) guidance to assist in achieving the plan including language skills and interview techniques;
 (c) further education, training or employment if necessary with subsidy.
- (²) Eurostat, New Cronos database.
- (³) It should be noted that the school-leaving age varies between Member States.
- (⁴) According to Article 128 of the EC Treaty (ex Article 109Q), the European Council shall each year 'consider the employment situation in the Community and adopt conclusions thereon, on the basis of a joint annual report by the Council and the Commission'. The Council shall each year draw up guidelines on the basis of a proposal from the Commission and after consulting the Parliament and the Economic and Social Committee. These guidelines are to be taken into account by the Member States in their employment policies (i.e. in the national employment action plans).
- (⁵) The first guideline is 'Tackling youth unemployment'. It is intended that Member States will develop preventive and employment-oriented strategies. Member States will ensure that every unemployed young person is offered a new start before reaching six months of unemployment in the form of training, retraining, work practice, a job or other employability measure.
- Guideline 4 'Encouraging the partnership approach' encourages the social partners to conclude, as soon as possible, agreements with a view to increasing the possibilities for training, work experience, traineeships or other measures likely to promote employability. The Member States and the social partners will endeavour to develop possibilities for lifelong training.
- Guideline 6 is 'Easing the transition from school to work'. As employment prospects are poor for young people who leave the school system early without having acquired the aptitudes required for entering the job market, the Member States will improve the quality of their school systems in order to reduce substantially the number of young people who drop out of the school system early.
- Guideline 7 'Providing young people with relevant skills' should ensure that young people are equipped with greater ability to adapt to technological and economic changes, with skills relevant to the labour market, by implementing or developing apprenticeship training.
- (⁶) OJ L 193, 31.7.1993.
- (⁷) Germany, Italy, United Kingdom and to a certain extent France.
- (⁸) European Commission (DG V). Conclusions of the ESF mid-term evaluations, 1998.
- (⁹) See especially Council Regulation (EEC) No 2082/93 (OJ L 193, 31.7.1993, p. 20).
- (¹⁰) Although Italy, for example, provides new funding through the 'fondo di rotazione'.
- (¹¹) ECA Special Report No 22/98 concerning the management by the Commission of the implementation of measures to promote equal opportunities for women and men (OJ C 393, 16.12.1998, paragraphs 23 to 24).
- (¹²) Article 2(1), last sentence of ESF Regulation (Council Regulation (EEC) No 2084/93 of the Council), and eligibility sheet No 5, Annex to Commission Decisions (OJ L 146, 5.6.1997, p. 31).
- (¹³) In its Annual Report for the year 1996 the Court examined the implementation of the CI ADAPT and in the Annual Report for the year 1997, the implementation of Employment-NOW.
- (¹⁴) Commission communication of 15 June 1994 (OJ C 180, 1.7.1994, p. 10). The other three strands are NOW (new opportunities for women), Horizon (for disabled) and Integra (refugees).
- (¹⁵) OJ C 200, 10.7.1996.
- (¹⁶) The name and address of the project managers; description of the project; classification by project manager of the projects under certain categories; duration of the project.
- (¹⁷) Recently: Special Report No 22/98 concerning the management by the Commission of the implementation of measures to promote equal opportunities for women and men (OJ C 393, 16.12.1998, paragraph 37).
- (¹⁸) Eurostat New Cronos data: 1999.
- (¹⁹) Eurostat New Cronos data: 1999.
- (²⁰) Council Regulation (EEC) No 2082/93 (OJ L 193, 31.7.1993).
- (²¹) Direction départementale de l'agriculture.
- (²²) Sharon Murphy, Analysis and Evaluation Unit: Evaluation of the scheme of installation aid for young farmers, February 1997.
- (²³) Article 33(2) of the EC Treaty (ex Article 39): 'In working out the common agricultural policy and the special methods for its application, account shall be taken of: (a) the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions'.
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THE COMMISSION'S REPLIES

GENERAL INTRODUCTION

Summary of audit observations

3. The ESF part-finances measures under Objective 3, throughout the Community, to facilitate the occupational integration of young people looking for employment, and measures under Objective 1 (in the regions concerned) within the national systems of secondary education or the equivalent and of higher education, which have a clear link with the labour market.

In accordance with the principle of subsidiarity, Community regulations do not define the target age group of measures to assist young people. This definition is the responsibility of the Member States, which are in a better position to establish the definition depending on the characteristics of employment in each European region.

5. The Commission is mindful of the potential risk of double claims by promoters who receive part-financing under several objectives. Monitoring of these promoters must therefore cover all the financing that they received during the period.

6. As far as the closure of CSF I is concerned, the number of cases of Objective 3 programmes that have not yet been closed is limited and is largely due to the launch of legal proceedings concerning projects, which prevents the programme from being closed before the courts concerned have given their verdict.

The Commission will take any corrective measures needed for the cases raised by the Court.

The Commission considers that the introduction of Regulation (EC) No 2064/97 concerning the control of the Structural Funds by the Member States has already had positive effects on the development of national control work.

The Commission agrees that there is a need to make general improvements to the procedures for the selection and follow-up of projects.

7. In most Member States the preliminary evaluation of the first phase projects was concluded when tenders for the second phase projects were launched. This tool enabled the Member States and the Commission to address a number of difficulties that had arisen in the first phase, and thus before the selection of projects under the second round.

The Commission is working on a document presenting the strategic outcomes of Community initiatives ADAPT and Employment. This document will constitute a reference point for Member States when they formulate their plans for the new initiative EQUAL.

8. The Commission will take account of the Court's comments in this area.

9. Specific rules on eligibility, such as for coordinating the Community initiative, must be dealt with in accordance with the general Community and national rules, with problems of interpretation being settled through partnership. As far as the new Community initiative EQUAL is concerned, specific questions of eligibility will be dealt with in a group of representatives of the Member States headed by the Commission.

The dissemination of the Youthstart Community initiative best practices takes place at project, Member State and Community levels. For the next initiative EQUAL, the Commission foresees an even more focused dissemination strategy.

The effectiveness of transnationality is currently being evaluated in a EU-wide evaluation at Community level launched in July 1998 in parallel with the final evaluation exercise at national level.

10. The Commission closely monitors and checks the work of the technical assistance office in order to ensure that it keeps the experience gained through technical assistance. Furthermore, the Member States also retain this experience.

11. The Commission points out that delays in programmes may also be due to late programme notification by Member States. It should be made clear that aid for young farmers forms part of these programmes only in Objective 1 and 6 regions. Outside Objective 1 and 6 regions, aid for young farmers is implemented via national or regional legislation, which has to be notified to the Commission in draft version for approval. Commission approval of these legislative texts usually does not exceed six months.

12. The overall objective of the instrument examined by the Court (Regulation (EC) No 950/97 on improving the efficiency of agricultural structures) is primarily the adjustment of agricultural structures. This is to be achieved by a set of various measures, which includes measures specifically benefiting young farmers. The clear objective of granting specific support for young farmers is to facilitate their installation and the subsequent structural adjustment of the holding. On a more global level, the impact of such measures may contribute to maintaining a viable agricultural community and thus help develop the social fabric of rural areas.

Following the mid-term review exercise, the Commission has drawn up a set of guidelines including homogeneous physical and impact indicators for the evaluation of measures under Regulation (EC) No 950/97 outside Objective 1 and 6 areas. These guidelines were submitted to the Member States on 24 February 1999.

PART I

ESF

Budgetary importance

20. Article 1 of Regulation (EEC) No 2081/93 defines the priorities for action through the Funds in the Objective 1 regions. This Objective therefore has a global nature, as intended by the Community legislator, without specific reference to categories of individuals. This means that young persons may benefit, in the Objective 1 regions, from operations under schemes that are either specifically designed for them or are more general and cover various target groups.

The EU strategy for young unemployed

Commission's analysis of the NAPs

23. The Commission shares the concern of the Court of Auditors that the national action plans for employment (NAPs) drawn up by the Member States should be rigorous and concrete plans which clearly demonstrate how the employment guidelines are implemented and which over time provide an assessment of impact. The Commission also shares the Court's concern that targets should be quantified where possible and that commonly agreed indicators should be used to assess progress towards agreed targets.

However, the Commission's recent analyses show that, in the context of a five-year employment strategy in which NAPs are updated each year to assess progress and respond to the annual employment guidelines, significant progress is being made by the Member States, working together with the European Commission, on both the concrete nature of the NAPs and on commonly agreed indicators and targets. The Court's analysis in early 1998 focuses on the progress which was achieved within a very tight timeframe of only four months, a period within which the Member States had committed themselves to action. The Court also appears to refer only to the Communication of the Commission of May 1998 ⁽¹⁾, without any reference to the joint employment report adopted later in November 1998 and based not just on the NAPs

but also on 15 national implementation reports presented in July 1998. This second analysis revealed that many of the shortcomings identified by the Commission in its Communication of May 1998 were then corrected, including making the strategy more concrete in budgetary terms. Moreover, following ratification of the Amsterdam Treaty, the Employment Title may now be fully implemented (for example, the Council adopted recommendations to the Member States in November 1999 for the first time). There was also an agreement on common indicators reached at the Cologne European Council in June 1999.

Besides that, it is to be noted that most of the present Objective 1 and 3 programmes were adopted in 1993/1994, whereas the Luxembourg process was only launched in November 1997. This has meant that the inter-linkages between the NAPs and the ESF are not yet as strong as the Commission would favour. The Commission will ensure in the forthcoming round of negotiations on the new programmes that this linkage is more clearly made, as required by the new Structural Fund Regulations.

The audit of mainstream ESF

Definition of a young person

24. Given the lack of more precise Community rules for the current programming period (1994 to 1999), it is up to the Member States to define binding rules through legislation. These standards are, by definition, the reflection of the economic and social situations that vary from one country to another. What is more, differences may sometimes be encountered even at national level when a Member State is organised on a federal or regional basis.

Evaluation of implementation

25. The Court analyses two aspects that relate to different and unlinked periods of time: operational programmes adopted in 1994 under the second Community support framework, on the one hand, and the national employment action plans (NAPs) presented in 1998 by the Member States following the Luxembourg European Council on employment of November 1997, on the other. The weaknesses in the opinion of the Court can therefore not be confirmed on the basis of the NAPs that were adopted much later in a different context (see the answer to paragraph 23).

Furthermore, as regards ESF assistance in Objective 1 regions, the Commission's answer to paragraph 20 above also applies in the German and Italian cases mentioned.

26. This type of ESF assistance appears to be fully justified given the extremely high youth unemployment in all new *Länder*, including Brandenburg. The mid-term review reports suggest that this type of ESF-assistance contributed significantly to reducing youth unemployment in all German Objective 1 regions.

⁽¹⁾ COM(98) 316 final, entitled 'From guidelines to action: The national action plans for employment', 13 May 1998.

27. As regards education systems and impact analysis, the content of the mid-term evaluation was indeed limited, but this was due to the time scale involved. As detailed in the 'Conclusions of the ESF mid-term evaluations', pages 31 to 34, evaluators have succeeded in providing a qualitative assessment of impact on education systems, which is all one could hope for at the time of the mid-term evaluation.

28. Despite the difficulties quoted by the Court, the 'Conclusions of the ESF mid-term evaluations' have revealed that young people are present in every priority in the forms of assistance.

29. Evaluation is carried out at programme, not project, level. During the mid-term evaluation, evaluators assessed the efficiency of project selection as part of their analysis of implementation mechanisms (see for example, pages 25 and 69 of the 'Conclusions of the ESF mid-term evaluations').

The Commission already provided the Member States with assistance in the definition of quantified objectives for the programmes when the Community support frameworks were drawn up. It proved more difficult to measure the progress of the programmes in relation to these objectives, especially because the national statistical systems were ill-equipped to provide the information required. A diagnosis by programme was carried out at the time of the mid-term evaluation and will be taken into account for the guidelines for the period 2000 to 2006.

Coordination of Structural Funds aid

Synergy between Funds

30. The integrated approach is defined under Article 13 of Regulation (EEC) No 2082/93. Furthermore, the only way of integrating the Funds is through the forms of assistance and their priorities. This is because Article 14(1) of Council Regulation (EEC) No 2081/93 (entitled 'Combination and overlapping of assistance') states that: 'For any given period, an individual measure or operation may benefit from assistance from only one Structural Fund or the FIFG at a time'.

31. The Structural Funds Regulations and their guidelines for 2000 to 2006 require Member States to integrate the programming of ESF-supported programmes with the implementation of the employment guidelines and the European employment strategy.

32. It is true that the New Deal projects do not require the promoters to do as much work to justify their expenditure financed from national sources, because the British authorities have opted for the declaration of lump-sum costs by promoters. Discussions have been launched on this question in connection with the third CSF.

Synergy between ESF activities

33. The Commission shares the Court's opinion and considers it necessary to integrate not only Community initiatives' innova-

tive ideas but also good practices to the mainstream ESF. This requires a subtle and sophisticated mechanism. The Monitoring Committee and the seven national support structures, members of the European Thematic Group, have already played an important role in this process (see the Commission's answer to paragraph 60).

34. As a general rule, the regionalisation of the management of the Funds reduces the risk of overlap of the operations and of double claims by bringing programme managers and final beneficiaries closer together. In any event, the Commission is always mindful of the potential risk of double claims of expenses by a promoter that benefits from part-financing under several objectives.

Specific observations on ESF financing

36. As the Commission indicated in its reply to paragraphs 23 and 24 of Special Report No 22/98 on the measures to assist the promotion of equal opportunities, and as the Court stresses in this point, the expenditure mentioned is provided for in the regulations and can therefore be included under national part-financing.

37. The rate of implementation of priority 2 for young persons that is indicated in the implementation report attached to the request for the payment of the 1997 balance for Objective 3 in France is indeed substantially lower than for priority 1 (73 %) for the long-term unemployed, since these measures are running more smoothly than the innovative measures of priority 2. However, an implementation rate of 55,6 % at the end of 1997, after four theoretical years for programming but only two years of actual implementation in practice, because of the periods of time required to introduce certain measures, may be considered to be satisfactory.

38. The low implementation rate of the past has always been carefully monitored by the Commission. This situation was due to the considerable political instability in the region. Things have now changed considerably: by 31 August 1999, the Sicily region of Italy had committed 100 % of the available appropriations.

39. The Sicily region has always declared to the Commission that its balance requests presented to the Commission are based on the actual expenditure incurred by the final beneficiaries. Moreover, the Commission has always demanded that, in accordance with the regulatory provisions and the financial implementation provisions annexed to the forms of assistance, the balance declarations must correspond to the expenditure incurred by the final beneficiaries.

The expenditure incurred may be justified by receipted invoices or accounting documents of equivalent probative value (point 5 of the financial implementation provisions annexed to the forms of assistance and eligibility sheet No 4 on the principle of real cost, OJ L 146, 5.6.1997). Certain items of expenditure do not necessarily correspond to invoices (e.g. depreciation of facilities or

premises, costs for internal teaching staff or for administrative staff of training centres). This may partly justify the gap mentioned by the Court between receipted invoices and expenditure incurred as declared by the two promoters audited by the Court. The Commission will nevertheless check the extent of the phenomenon mentioned (if this occurred at the time of the Court's verification and, if so, to what extent) and the degree to which problems still exist.

Certain delays are possible in the payment of national State part-financing to the final beneficiaries; these do not necessarily contravene the regulations if they are linked, for example, to the use of alternative financing (eligibility sheet No 16, OJ L 146, 5.6.1997). The Commission will check this point with the regional authorities.

40. It is true to say that France amended its request for the payment of the balance for Objective 3 after the submission date of 30 June. In reply to the comments made by the Commission, the ESF department declares that certain beneficiaries do not obtain their final data until after this date, which makes it necessary to send an amending request for payment of the balance. In any event, the Commission took account of the amended request for payment of the balance that was submitted in September 1998 and therefore complied with the regulations.

As far as the question of the revenue to be deducted is concerned, the Court's analysis is correct: the receipts from the operations part-financed by the ESF must be deducted from the amount of expenditure. However, the Commission would point out that these receipts must be deducted, according to the terminology on the forms in question, from the total cost rather than from the total eligible cost (defined as 'total cost' - 'receipts'), as mentioned by the Court. In the case in question (request for payment of the balance for 1997), this is just what the French authorities did. The share of the ESF is 28,9 % of the total cost (namely FRF 2 423 million/FRF 8 361 million) and 30,025 % of the total eligible cost (namely FRF 2 423 million (8361 million - 291 million of receipts)). The maximum rate of ESF part-financing has been complied with.

41. The Commission broadly agrees with the Court's comment, not that it thinks that 16 hours of training per week are insufficient in themselves (this all depends on the total duration of such training), but rather because the ceiling on the weekly duration of training is designed solely to ensure that persons undergoing training retain the status of unemployed people. It is planned to review the assistance of the Fund relating to this matter for the new programming period.

42 to 43. As pointed out by the Court, it is not possible for a regulatory framework that has to apply to all types of operations part-financed by the three Structural Funds and the FIFG in the 15 Member States to cover all the situations that may arise on the ground, especially concerning indirect overheads. The objective of eligibility sheet No 5 is therefore to establish an acceptable rule for the breakdown and justification of indirect overheads between projects that are part-financed and projects that are not part-financed, but not to define what these overheads are. As regards

the various situations described by the Court that have repercussions on the type and amount of indirect overheads attributed to the part-financed projects, account must also be taken of the nature of the operator concerned (university with substantial overheads or small non-profit-making structure, for example) and its activities (number of projects part-financed in relation to the general activity of the promoter).

44. The Court's audit raised four types of case of differing financial impact:

- (a) Certain cases have no financial impact (first, third, fourth and seventh indents of the Court's text);
- (b) Other cases were already known to the Commission, following its audits, and have already been the subject of the procedures under Article 24 of Regulation (EEC) No 2082/93 (corresponding in part to the second and fifth indents of the Court's text);
- (c) Certain cases pointed out by the Court in its audit have since been the subject of corrections by the Member States;
- (d) Three remaining cases with a financial impact need to be corrected (one case under the second indent, one case under the fourth indent and one case under the fifth indent of the Court's text).

For the three types of case (a) to (c), no correction needs to be made. For the three cases mentioned under (d), the Commission undertakes to initiate the procedures under Article 24 of Regulation (EEC) No 2082/93 on the basis of the information provided by the Court.

Employment-Youthstart Initiative

45. Given the size of the sample examined by the Court, prudence needs to be exercised in interpreting and generalising the results.

Budgetary importance

48. Initially some 4 % of the national budget was earmarked for technical assistance (TA). However, the allocation for TA has been revised and adapted over the years according to the size of the programme and the specific needs in each country.

Audit of the implementation of Employment-Youthstart

Age Qualification for Employment-Youthstart

49. The Youthstart programme generally applies to young people up to the age of 20. As quoted by the Court, the Communication

also foresaw some exceptions in order to include young people beyond the age of 20. Managing authorities in some Member States therefore advocated for more flexibility because of duly justified circumstances. For example, in Germany, the managing authority operated within the limits set in the 1995 operational programme and decided that the age group 20 to 25, which was particularly hard hit by the labour market situation, required the same kind of Youthstart support as the age group below. In Greece, the compulsory long military service affects the upper age limit.

Selection procedure

50. The Commission is aware of the fact that the preparatory work and the transnational work is not always being budgeted at the same level. However, it should be borne in mind that projects are approved separately by the national authorities and usually are not based on joint planning and budgeting by the promoters.

The shortcomings in the financing of the preparatory phase will be addressed by the EQUAL initiative, where the preparatory phase will be funded in all Member States.

51. The Commission considers that the selection procedure must be designed in accordance with the principle of subsidiarity, which attributes a fundamental role to Member States in implementing the Community initiatives. In line with the underlying philosophy of the European employment strategy endorsed by the European Governments ⁽¹⁾, the Commission is convinced that the national authorities are best placed to determine whether a transnational partnership bears a genuine added value at a local/regional/national level, e.g. is a 'worthwhile' partnership. It is therefore crucial that the selection and endorsement of the transnational activities remains at a national level.

52. As to the overall coordination of the partnerships, the daily management and monitoring is assured at national level. The Commission follows closely the progress and results of the transnational work through the Monitoring Committee, the national evaluations, the dissemination events and the national/European thematic work.

Project visits and the exchange of information are the most typical transnational start-off activities that generally lead on to more output-oriented activities. The role of transnationality, which is perceived by the Member States as one of the main assets of the Community initiatives, will be incremented in the future initiative EQUAL.

Absence of reliable information

53. As regards the operation of the Commission's database that is fed by the national databases, it is true that the data of the com-

mon consolidated module (CCM) are organised by project and not by partnership, because this tool was designed essentially to make it easier to look for partners and to carry out qualitative analysis of projects (in terms of beneficiaries, activities, topics, etc.) and not to manage the transnational partnerships. The statistics of the CCM concerning the partnerships are partial, largely because of the dependence on the data submitted by the national support structures and the technical complexity of consolidating the transnational data.

54. As far as the partners that are not funded by Youthstart are concerned, the only information that has to be provided about such partners for the purposes of good management and monitoring is the cost of the services rendered and charged to the project that is part-financed by Youthstart.

55. The Commission repeats its reply to paragraph 37 of the special report on equal opportunities, which is that the working methods of the transnational partnerships between different projects are for the partnership itself to arrange. However, the Commission believes that such a move must remain the prerogative of the individual partners involved and should not be made compulsory.

Coordination and dissemination

56. The eligible costs, apart from the 22 eligibility sheets adopted by the Commission in April 1997, are defined at national level. These costs may therefore differ from one Member State to another. Under the new Community initiative EQUAL, the Commission asked the Member States to establish a discussion group on the eligibility of the costs related to transnationality in order to ensure as much progress towards harmonisation as possible.

57. The Commission is very interested in incorporating the Youthstart experiment into the mainstream of the ESF. There are already several examples of first phase Youthstart projects that have been integrated into the mainstream ESF programmes. In addition, the Commission aggregates, on a regular basis, good practice cases that have been mainstreamed/have a mainstreaming potential. These cases are communicated internally to the ESF geographical desks in the Employment DG.

The European Thematic Group has also proved to be a very effective means to reach the actors that influence the ESF mainstream programmes (see also comments to paragraph 58 on the mainstreaming of good practices).

Mid-term evaluation

58. The Commission will take account of the results of the mid-term evaluation concerning transnationality and dissemination when the new Community initiative EQUAL is implemented.

⁽¹⁾ That is, employment problems can most effectively be addressed and solved at the local level.

The Commission considers also that the construction of a project typology, one of the aims of the ongoing EU-wide evaluation, will be very useful in this regard.

Technical assistance

59. The technical assistance for the Community initiatives is an integral part of the programme. As such it is subject to the same procedure of monitoring and scrutiny as the implementation of the individual measures. This procedure includes the Monitoring Committees. Furthermore the ESF missions are obliged to produce an annual report on the progress of the Community initiatives which includes the activities of the technical assistance.

60. The end of the contract of the technical assistance office (TAO) does not mean that technical assistance (TA) for the programme is no longer provided. Evaluation and dissemination are carried out by independent experts who have no links with the TAO. Furthermore, at the date on which the TAO's contract ends, all the projects will already have been selected and approved, whereas their implementation is not one of the responsibilities of the TAO.

PART II

EAGGF GUIDANCE

Implementation of Articles 10, 11 and 26 to 28 of Regulation (EC) No 950/97

70 and 71. The Commission shares the Court's view concerning the advantages of combining loans and subsidies, where appropriate; moreover, EAGGF Guidance aid to young farmers may be granted in both forms. However, Regulation (EC) No 950/97 leaves the choice to Member States whether support is provided in the form of direct grants or interest rate subsidies, either for the setting-up aid or the investment aid.

The fact of opting for direct grants or for interest rate subsidies has no direct link with the economic viability or profitability of the investment, which are evaluated under the material improvement plan. Account must also be taken of the very high level of interest rates during the period examined by the Court (1994 to 1997), especially in the Mediterranean countries. This could explain the reticence of young farmers about borrowing money, even at subsidised rates.

Definition of 'setting-up' date

72. The Sicilian case raised by the Court is a special case.

Circular No 187 of 15 September 1995, approved by Commission Decision C(96) 9 of 5 February 1996, stipulates that the period

of two years begins from the date of the decision to grant the aid. This provision was approved by the Commission in order to safeguard, in exceptional circumstances, the eligibility of certain young farmers who are in the process of setting up, and was given a favourable opinion by the STAR Committee on 26 January 1996.

73. The Commission will examine the situation described by the Court relating to the interpretation of the notion of first set-up date made by the regional authorities in Andalusia, and will apply any financial corrections which may prove necessary.

Lack of audit trail for interest-rate subsidies

75. The Commission already noted France's practice concerning interest rate subsidies in the agricultural sector when it carried out its last checks in the country. It is currently examining whether the application of 'administrative' interest rates by the banks that are accredited to provide loans with interest rate subsidies constitutes a violation of the Community rules on the Structural Funds. Depending on the result of the detailed examination that is currently being carried out, it will adopt the appropriate measures, including, if necessary, for financial correction.

Internal control systems

Planning difficulties, delays and internal control weaknesses

76. The late approval of this programme following difficulties with investigation (multi-fund programme requiring various requests sent to the Member State for the supply of information) accounted for the difference indicated by the Court between implementation and the forecasts of the initial financing plan.

77. The Commission will require the Spanish authorities to incorporate the correction of the mistakes detected by the Court into the forthcoming implementation report. The examination of certificates of expenditure by an independent body, as provided for in Article 8 of Commission Regulation (EC) No 2064/97, will make it possible to correct errors of this kind, prior to the final payment of the programme.

Evaluations

78. The Commission acknowledges the need for harmonised indicators. The evaluation exercise referred to by the Court revealed the need to strengthen this aspect. Therefore, the Commission has drawn up guidelines for the evaluation of measures under Regulation (EC) No 950/97 outside Objective 1 and 6 areas. These guidelines were submitted in the form of a Working Document (No VI/7676/98/REV2) to the Member States in the STAR Committee meeting of 24 February 1999.

79. The mid-term evaluations of Regulation No 950/97 in the Italian Objective 1 regions are in the process of being carried out as part of the evaluation of the regional programmes. Concerning the existing evaluation reports in some Member States referred to by the Court, the Commission has taken note of the Irish evaluation report on the setting-up aid. Many factors other than the provisions of Regulation (EC) No 950/97, such as inheritance rules and taxation, have an important influence on the setting-up aid for this transfer. This may partially explain the fact that the contribution of the setting-up aid for this transfer has not been significant.

PART III

CONCLUSIONS

80. The assistance of the ESF has been put on a different footing with the adoption of the European employment strategy. For the programming period 2000 to 2006, several Member States already intend to refocus their ESF assistance strategically in accordance with the approach of the employment guidelines and the national action plans (NAPs) derived from them. The Court's comment on impact is premature because the final evaluations will show the precise impact that the ESF has had over the current period (1994 to 1999). Lastly, during the current programming period, the Commission and the Member States have adopted a whole series of initiatives to strengthen the financial framework for the implementation of the forms of assistance and to guarantee good financial management of the ESF (see the Commission's reply to paragraph 83).

81. Some of the conclusions of the mid-term evaluation have been applied to this programming period (e.g. especially in the rescheduling of financial resources to the various measures), whereas others could not (e.g. recommendations on the quantification of objectives, better programme indicators, etc.). However, they do constitute valuable information for preparing the next round of programming and they have been duly taken into account in the Commission's guidance documents. This type of feedback enhances the culture of evaluation.

82. Following its checks, the Commission made recommendations to the Member States that led to a partial reduction in the problems mentioned (adjustment of grant approval decisions concerning academic training; commitment to inform the national authorities concerned of the need to revoke the national provision which was called into question by the Court and which, moreover, is not systematically applied according to the Commission's auditing experience). The adoption of the eligibility forms by the Commission in April 1997 (OJ L 146, 5.6.1997) also made it possible to strengthen the financial framework for the implementation of the forms of ESF assistance, especially by a clearer definition of the concepts of 'final beneficiary' and 'expenditure incurred' and of the rule for the charging of indirect overheads. On this last matter, the level of overheads charged to a project depends fundamentally on the nature of the promoter and his activities. Moreover, the Commission knows of national rules that impose *de facto* restrictions on the declaration of indirect overheads for part-financed operations.

83. Since the Court's Annual Report for the 1995 financial year, the Commission has fleshed out the commitments that it made to the Court in its reply to point 6.136 of that report. Accordingly, it has taken a series of initiatives to strengthen monitoring and the protection of Community financial interests in the area of the Structural Funds:

- decision on the eligibility rules for expenditure in the Structural Funds taken by the Commission in May 1997,
- Regulation (EC) No 2064/97 on the control of the Structural Funds by the Member States,
- establishment of guidelines for the implementation of Article 24 concerning financial corrections.

The general comment made here by the Court is therefore not a question that is specifically linked to the measures to assist young people, but concerns all the Structural Funds.

84. The new rules for the 2000 to 2006 programming period already provide for a reduction in the number of assistance objectives of the Structural Funds and the Community initiatives, especially in order to simplify the mechanisms for managing the Structural Funds.

85. In the area of the ESF, and especially for the measures to assist young people covered by this special report, training is organised primarily through subsidies granted to training bodies, which is not an inherently reprehensible practice.

The Court's comment would in fact apply more to the other Structural Funds or to certain measures part-financed by the ESF but not covered by this report. For these cases, the Commission has already agreed to finance financial engineering mechanisms that can produce a multiplier effect for public aid by adopting the eligibility sheets for expenditure under the Structural Funds in April 1997. The ESF will take account of this new approach in the negotiation of assistance for the new period 2000 to 2006.

The Commission shares the Court's view concerning the advantages of combining loans and subsidies; incidentally, EAGGF Guidance assistance to young farmers may be granted in both forms. However, Regulation (EC) No 950/97 leaves the choice to Member States whether support is provided in the form of direct grants or interest rate subsidies, either for the setting-up aid or the investment.

86. The Commission agrees that the efforts made to improve the implementation of the Community initiative need to be maintained. The technical assistance provided not only at the Commission, but also, especially, in the Member States, has made it possible to develop, among other things, a network of databases and expertise.

87. The agricultural structures policy implemented in the European Union takes account of the mandate in the Treaty (Article 39(2)) concerning the particular nature of agricultural activity, which results from the social structure of agriculture. The setting-up aid for young farmers, for which the Court has indicated the amounts invested and the number of beneficiaries, is a good example. This concern has always been present in the regulations of the Council and the Commission, in the work of the Agricultural Structures and Rural Development Committee (STAR)

and in the frequent contact with the trade organisations in agriculture. The fact that the Court has been unable to establish the existence of a joint strategy of the EAGGF-Guidance Section and the ESF for the benefit of young farmers does not in any way call into question the compliance with the provisions of the Treaty that are mentioned by the Court. The impact of this policy in terms of the amounts invested and the number of beneficiaries is included in the tables annexed to the Court's report.
