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COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013

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Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013

1. INTRODUCTION

This Communication provides, for the first time, a complete overview of the implementation of the cohesion policy programmes 2007-2013. It is primarily based on the 27 national strategic reports, which are a new feature of cohesion policy for this period[1].

The national strategic reports were introduced to improve transparency and encourage accountability of the policy at national level in the context of the shared management of cohesion policy. The national strategic reports are therefore a key tool to monitor the implementation of the strategic commitments of the Member States to delivery high level EU objectives through cohesion policy.

This Communication is intended to facilitate debate with the EU institutions in view of the policy's significant role in fostering sustainable economic and social development in Europe’s regions and the Member States. With that in mind the concluding section makes recommendations on how effective implementation could be strengthened to maximise the contribution of the 2007-2013 programmes to strengthened peer review and policy learning, also with a view to contributing to the Europe 2020 strategy.

The Member States report that the original commitments to invest in structural change are being realised. Projects are already selected amounting to more than 93 billion EUR or 27% of the total financial volume for the period, after approximately 18 months of active implementation. Within this overall trend, EU earmarked priorities are being selected at a similar or slightly faster pace. In large part this is because cohesion policy programmes have responded to new needs using flexibility and simplifications in management to improve the effectiveness of the funds, including through the use of the regulatory changes proposed by the Commission and adopted by the Council and European Parliament in 2009.

Many EU priority investments are reported as advancing well with one third or more of the total planned investment allocated to projects in areas such as stimulating research and innovation in SMEs, using financial engineering to provide capital to SMEs (i.e. JEREMIE initiative), promoting clean urban transport, implementing active labour market and lifelong learning policies and renewing education and health infrastructures. Reporting by the Member States also highlights areas of slower progress where follow up is clearly required.

The Member States have made a significant effort to deliver strategic reports presenting both relevant qualitative and quantifiable elements on implementation. The 2007-2013 programmes

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1 Legal basis: Articles 29 and 30 of Council Regulation (EC) No 1083/2006 (OJ L210, 31.7.2006, p. 25). The publicly available reports can be found here: http://ec.europa.eu/regional_policy/policy/reporting/index_en.htm

are successfully launched, but still in the early stage of spending on the ground. It is too early to have extensive data on outputs, results or, in particular, impacts. This will change in the 2012 round of strategic reporting when more comprehensive evidence of results and early impacts is expected.

A separate Staff Working Document[2], which presents the reported progress on selected projects, a short commentary on major trends and a selection of 40 good practices identified in the National reports, is attached to this Communication.

2. SOCIO ECONOMIC DEVELOPMENTS AND TRENDS

The financial and economic crisis that started in 2008 has changed dramatically the economic landscape of the EU. While economic growth was about 3% in 2006 and 2007, when the National Strategic Reference Frameworks (NSRFs)[3] were prepared, GDP contracted sharply since the summer 2008 triggered initially by the financial turmoil. Since then, employment has shrunk and unemployment is higher than it has been for over a decade. In addition, the reductions in consumption and investment have been substantial and public debt has leapt dramatically in many Member States. In this context it is not surprising that most national reports contrast the situation before the preparation of the NSRFs with the situation since 2008. Almost all reports look at regional or local variations while more than half explore the relevance of these changes for the programmes.

In 2008 GDP growth in the EU was already very low (0.8%) and it shrank by more than 4% on average in 2009. The recession was particularly severe in the Baltic States with negative rates between 14% and 18%. Only Poland enjoyed economic growth in 2009 (1.2%). Yet, forecasts show the first signs of economic recovery. Economic growth, while low, will be positive again in 2010 in the EU and all Member States will show GDP growth in 2011.

Unemployment was at 9.6% in December 2009 compared to 8.2% in December 2008[4]. Some countries have been particularly affected by the crisis. The increase in unemployment rate has roughly doubled over the last year in Ireland and Spain and tripled in the Baltic States. Latvia (22.8%) and Spain (18.8%) scored the highest rates at the end of 2009. The crisis is also likely to have increased regional disparities in the labour market. Since unemployment is likely to remain high for some time there is an inherent risk of long-term unemployment and social exclusion.

The economic downturn also triggered a sharp deterioration in the business climate and in consumer confidence. Total investment declined about 15% in 2009 compared to the previous year and consumption by about 3%. Exports of goods and services ebbed dramatically by almost 20% and foreign direct investment declined in several Central and Eastern European countries[5]. Public expenditure rose playing a counter-cyclical role. This increase resulted mostly from the protection offered by the national welfare systems and the stimulus plans adopted by many Member States in the context of the European Economic Recovery Plan. The combined effect of the fall in employment and the increase in social expenditure is likely

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2 SEC(2010) 360, 31.3.2010
3 The NSRFs are the framework documents which translated the CSGs to the national context.
4 Eurostat Unemployment rates in December 2009, seasonally adjusted.
5 HU, LV, SK

to be substantially different across Member States. Social expenditure is expected to increase from 27.5% to 30.8% of EU GDP between 2007 and 2010.

The Fifth Cohesion Report to be adopted later in 2010 will present a more complete picture of the developments in socio economic disparities.

3. CHALLENGES AND PROGRESS IN IMPLEMENTATION

The national reports provide insights into the very different contexts within which the 2007-2013 programmes are being delivered.

In terms of the systemic obstacles to the speedy implementation the following key issues are identified by the Member States:

- the delays in agreeing the EU budget, the delayed adoption of the Regulations, Community Strategic Guidelines (CSGs)[6] and subsequent negotiation of programmes[7];

- changes in the rules on financial control are perceived as the most frequent contributor to delay in implementation as the Member States adjust to the new control system[8];

- complexity of managing overlapping programming periods[9];

- unclear distribution of tasks nationally, insufficient experience, lack of administrative capacity at both managing authorities and beneficiaries and internal reorganisation processes of public administrations[10].

The impact of the global economic recession that started in autumn 2008 is clearly cited in many reports as complicating delivery and changing expected demands[11]. A group of Member States refer to the impact of growing restrictions in national or local public financing[12]. Two refer to the use of EIB loans to guarantee national co-financing (LT, HU). Both the CZ and UK reports mention changing exchange rates as an additional challenge. According to some Member States programmes have nonetheless started as quickly as in the past[13].

Cohesion policy economic recovery measures

The Communication "Cohesion policy: investing in the real economy"[14] (and supporting legislative reforms) elaborated on important elements of the European Economic Recovery Plan[15], including recommendations to the Member States. The recovery package was welcomed by the Members states. Because the crisis is affecting them in different ways, the

6 OJ L291/11, 21.10.2006 - http://ec.europa.eu/regional_policy/sources/docoffic/2007/osc/index_en.htm
7 i.e. AT, DE, ES, LT
8 i.e. AT, BE, CY, CZ, DE, DK, EE, EL, ES, IE, IT, PT, SK, UK
9 i.e. AT, EE, EL, ES, FI, IE, IT, HU, PT, UK
10 i.e. BG, RO, LT
11 i.e. AT, DE, ES, IE, PT, SL, UK
12 i.e; DE, ES, FI, IE, LT, LV, MT
13 i.e. AT, BE, DE, SE
14 COM(2008) 876, 16.12.2008.
15 COM(2008) 800, 29.10.2008.

use of proposed measures has varied from one Member State to another.

- Most countries strongly confirm the continued relevance of the agreed strategies. NSRFs as well as most programmes largely provide enough flexibility to cope with the changing socio-economic context.

- Many Member States have examined the need to meet new needs or speed up implementation. Responses range from simplification measures (reducing burdens on beneficiaries), the use of internal flexibility within priorities, the modification in financial allocations between priorities or changes in co-financing rates.

- The measures most widely resorted to involve labour market activation measures targeted at people most affected by the crisis (ESF) and greater use of financial engineering instruments above and beyond the 3 bio € originally planned not counting leverage private capital (i.e. JEREMIE and micro financing funds for those affected by the crisis (DE)). A smaller number of programmes were changed to allow new measures such as energy efficiency investment.

- The additional EU advance payments in 2009 provided a cash injection of € 6.25 billion in 2009 for the Member States with a view to increased pre-financing and accelerating investments. Most national reports detail how this was applied, often involving changes in national policy and procedures.

- A synthesis report on the mobilisation of cohesion policy programming in the context of the recession will be presented by the Commission before mid-2010.

In relation to the Commission proposals for further regulatory changes of July 2009 the Council and the European Parliament are invited to accelerate their examination to arrive at an early decision.

A strength of most national reports is that they also discuss the measures taken to overcome or counteract the difficulties in implementation. Member States have also provided examples of good practices[16] that underline the following factors of success in implementation;

- close cooperation between the MSs and Commission during the finalisation of the Regulations and Guidelines;

- positive links between cohesion policy objectives and sectoral reforms in areas such as education, science/research, health and business environment;

- use of information and communication technologies;

- positive effects of investment plans and wider national reforms (regional or local government reform, public budget reform, reform of environmental or procurement rules) though delays in some reforms also has negative consequences;

- simplification of administrative procedures (national and/or regional);

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[16] An indicative selection of 40 of the 220 *best practice* projects identified by the Member States is presented in Section 3 of the Staff Working Document.

- supporting entrepreneurship and addressing labour market gaps by fostering adaptability.

It is clear, for those Member States that joined the Union since 2004, that programming is very closely associated with addressing major challenges in social inclusion, the modernisation of the economy and institution and capacity building. Many strategic reports also discuss the role of multi-level governance and partnership in their programming in terms of mobilising and coordinating different levels of government, involving civil society and business interests and integrating different sectoral objectives.

4. IMPLEMENTATION OF AGREED STRATEGIES AND PROGRESS TOWARDS OBJECTIVES

Two Commission communications have already provided insights into the agreed priorities of 2007-2013 programmes in terms of EU growth and jobs targets[17] and more broadly on the results of the programme negotiations[18]. In short, for the less developed regions designated at Convergence objective (81% of resources) and the regions falling under the Regional Competitiveness and Employment (RCE) objective (15% of resources) 65% and 82% of the funds are to be invested in EU priority themes respectively. Altogether around EUR 230 billion was “earmarked” for investment in the modernisation of the EU economy in line with the high level EU priorities established under the Lisbon Agenda.

The progress towards the objectives originally set through the CSGs, the NSRFs, and the Integrated Growth and Jobs Guidelines[19] are presented below drawing on information in the national reports on the project pipelines (allocations to the selected project), early trends in spending and looking at early evidence from monitoring and evaluation.

4.1. Accelerating implementation

The reported financial volume of projects selected is 93.4 billion EUR representing more than 27% of available EU resources in the period. This average rate of project selection is closely respected in the three objectives – Convergence, RCE and European Territorial Cooperation (ETC) – and equally applies to the rate of selection of the Lisbon Earmarking categories. A total of € 63 bn is reported as allocated to Lisbon earmarking projects.

However, nationally the progress in implementation is more variable as shown in Graph 1. In the case of those Member States below the average there is a higher risk of late delivery unless the rate of project selection and implementation is accelerated. The accompanying Staff Working Document[2] presents the progress on projects selected in more detail.

In terms of investment needs the earmarked EU priorities already set in this period are closely aligned with priorities in the Europe 2020 strategy. A strength of the "categorisation" information system is that the 86 identified “priority themes” can be looked at according to key thematic priorities (i.e. transport, energy) or in the light of cross cutting policy priorities (i.e. innovation or climate change).

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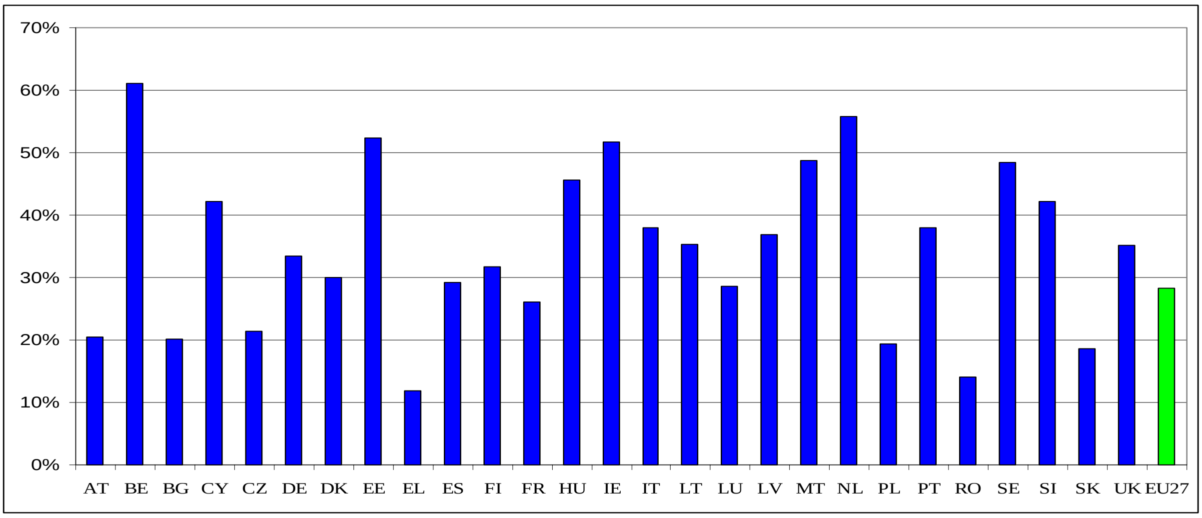
17 COM(2007) 798, 11.12.2007.
18 COM(2008) 301, 14.5.2008.
19 COM(2007) 803, 11.12.2007.

Graph 1: Reported aggregate rates of project selection by Member State



In Table 1 below the data on the financial volume of selected projects from the national reports has been summarised in line with the priorities set in the CSGs. This shows relative progress in project selection under its different objectives.

Table 1: Progress in delivering Lisbon Earmarked priorities 2007-2013 by Objective.

	Lisbon Earmarking			**Non earmarked**		
	Planned EU Investment (bn €)	**Allocated to selected projects (bn €)**	**%**	**Planned EU Investment (bn €)**	**Allocated to selected projects (bn €)**	**%**
I. Convergence						
Attractive places to invest and work	65.883	16.235	**24.6%**	76.579	20.340	**26.6%**
Improving knowledge and innovation for growth	64.599	19.727	**30.5%**			
More and better jobs	42.860	11.020	**25.7%**	3.878	0.697	**18.0%**
National Earmarking	7.972	3.262	**40.9%**			
Territorial Dimension				11.095	3.036	**27.4%**
	181.315	**50.244**	**27.7%**	**91.552**	**24.074**	**26.6%**

II. Regional Competitiveness and Employment

Attractive places to invest and work	2.531	0.827	**32.7%**	7.032	1.695	**24.1%**
Improving knowledge and innovation for growth	18.601	4.740	**25.5%**			
More and better jobs	21.614	6.318	**29.2%**	0.463	0.076	**16.3%**
National Earmarking	0.714	0.193	**27.0%**			
Territorial Dimension				2.533	0.556	**21.9%**
	43.460	**12.078**	**27.8%**	**10.027**	**2.327**	**23.2%**

III. European Territorial Cooperation

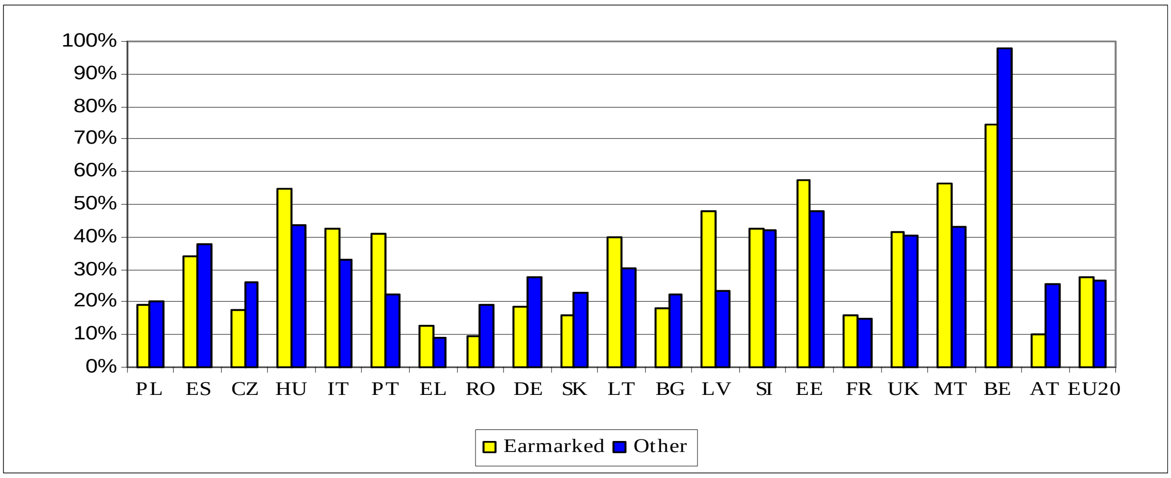
Attractive places to invest and work	0.947	0.168	**17.7%**	2.913	0.745	**25.6%**
Improving knowledge and innovation for growth	1.971	0.462	**23.4%**			
More and better jobs	0.540	0.079	**14.6%**	0.505	0.137	**27.2%**
Territorial Dimension				0.482	0.138	**28.7%**
	3.458	**0.709**	**20.5%**	**3.900**	**1.020**	**26.9%**

Technical Assistance				10.594	2.993	**28.3%**

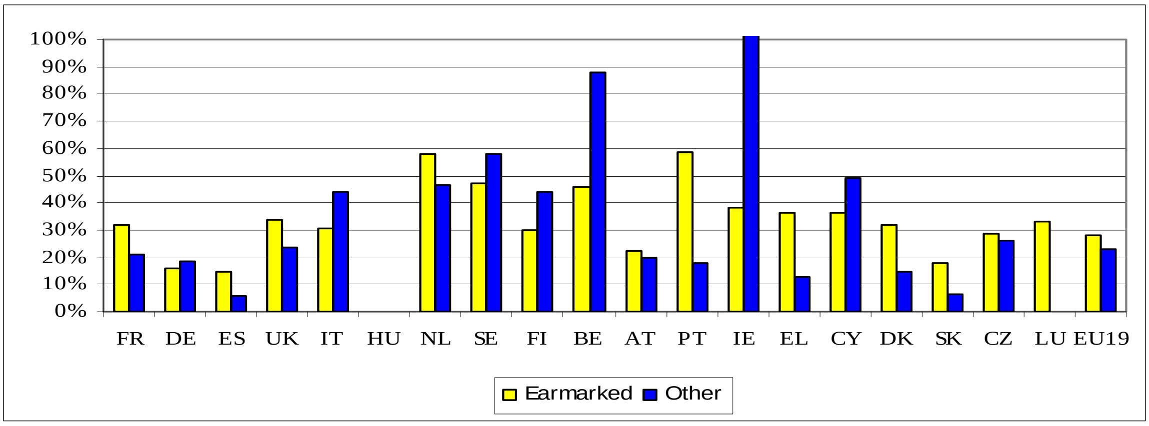
Total	**228.233**	**63.031**	**27.6%**	**116.072**	**30.413**	**26.1%**

Many Member States now confirm that the discipline imposed by the 'earmarking' requirement has improved the quality and focus of programming. The data reported by Member States also allows the analysis of relative progress between earmarked and non-earmarked priorities of each Member State. Graphs 2 and 3 show the relative progress in earmarking under the Convergence and RCE objectives, respectively. The graph is presented in terms of declining absolute financial importance (left to right).

Graph 2: Lisbon earmarking - Convergence Objective: Volume of projects selected as % of total



Graph 3: Lisbon earmarking - Regional Competitiveness and Employment Objective: Volume of projects selected as % of total

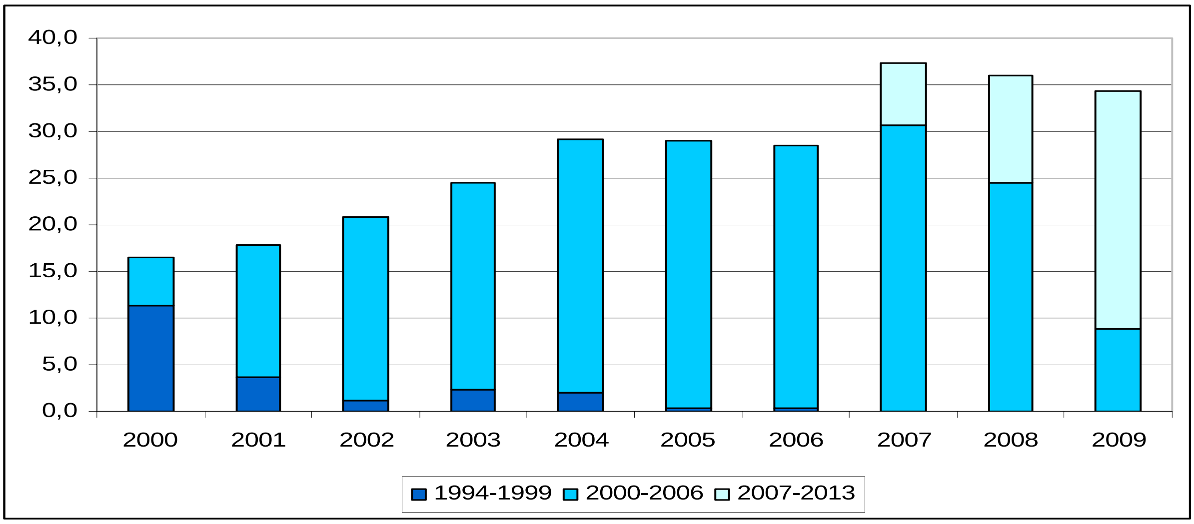


4.2. Expenditure trends

In terms of payment of EU financing, 108 billion EUR has been transferred to the Member States in the years 2007-2009. 64 billion EUR related to actual expenditure under the 2000-2006 programmes while 44 billion EUR related to advances and actual expenditure under the 2007-2013 programmes (Graph 4).

The national reports provide information on spending by programme, referring exclusively to the latter period. To date 23.3 billion EUR has been declared in interim expenditure under the programmes 2007-2013[20]. In 2009 there was a clear acceleration in certified expenditure under the new programmes once the previous programmes were closed.

Graph 4: EU payments to Member States - 2000-2009 (ERDF, ESF and Cohesion Fund - Billion EUR in current prices)



4.3. Monitoring and evaluation

A wide range of indicators are used by the different national and regional managing authorities under the shared management system, however these can mostly not be aggregated

[20] As payment data is not reported by Member States by "priority theme", but rather in line with the agreed programme financial tables, declared spending cannot be compared thematically to the data on selected projects at this stage. For that reason payments are not further analysed.

at EU level[21]. At EU level, the Commission can only aggregate data on certain core indicators. Though not all reports have provided information on indicators, 19 Member States have reported on ERDF and Cohesion Fund core indicators. This reporting of recommended core indicators is an encouraging first step in the process of clarifying the aggregate picture of what the policy is achieving on the ground. For instance, 13 Member States have reported that they have programme or approved project targets to create about 351,300 gross jobs[22], while 8 Member States[23] already report the creation of 55,900 gross jobs.

In 2007 and 2008, the current ESF programmes have reached almost 6 million people, of which 52% are women. About one third of actions were targeted at helping workers. Measures have been also addressed to the unemployed (33% of beneficiaries of which 7% were long term unemployed), as well as to vulnerable groups, e.g. migrants and minorities (13%).

Lessons from national and regional evaluations are referred to in 20 national strategic reports. Also an ex-ante evaluation for the Commission of the national strategies concludes that the funds have a significant potential to contribute to EU high level goals and demonstrates the central position that EU priorities have in cohesion policy programming[24].

Ex-post evaluation of 2000-2006 programmes

The impacts of investments on structural change can only be seen over time. The Commission's on going ex post evaluations of the 2000-2006 period are delivering evidence of cohesion policy achievements on the ground[25].

Evidence points to increased investment among enterprises supported by the ERDF. The Member States have reported at least 730,000 gross jobs created in Objective 2 regions, while modelling estimates 612,000 net jobs created in Objective 1 regions.

The policy has improved connectivity throughout Europe - the ERDF alone has supported the building of 2,000km of motorways - 24% of all motorway development in the period - and improvement or construction of 4,000 km of rail network.

The ESF provided relevant support to implement labour-market reforms, both at the national and regional levels. It proved to be an effective instrument contributing to the shift from passive to active and even preventive labour market policies by providing financial and conceptual support for reforms and enabling an increase in the volume and scope of actions.

Over 75 million participants were involved in ESF financed activities. Almost 28 million of EU citizens participated in a wide range of active labour market policy measures, half of them were women, almost ¾ were unemployed and more than 1/3 young (under 26). Education and

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21 Annual Implementation Reports provide detailed information on progress of individual programmes in relation to established indicators and targets. Annex XXIII of the implementing Regulation No 1828/2006 provides data on participants in ESF operations by priority.

22 The Member States are AT; BE, BG, CZ, DE, FI, HU, IE, LU, NL, PL, SE, SI .
Programme targets are an aggregate of those in the programmes based on selected projects. Some Member States did not report programme targets but reported the targets of projects approved to date.

23 CZ, DE, FI, IE, PL, SE, SI

24 http://ec.europa.eu/regional_policy/sources/docgener/evaluation/rado_en.htm

25 ERDF / CF evaluations: http://ec.europa.eu/regional_policy/policy/impact/index_en.htm
ESF evaluations: http://ec.europa.eu/social/main.jsp?catId=701&langId=en

lifelong learning activities involved almost 33 million participants. 71% of the participants held a job while 23% were unemployed and 6% inactive. 62% of them were young and more than 1/3 of were 26-54 year olds.

Cohesion policy also delivered environmental improvements in line with EU Directives with 14 million additional people served by water supply projects and 20 million additional people served by waste water projects co-financed by the ERDF, especially in Objective 1 areas.

Finally ex-post evaluation work is delivering policy learning to optimise the policy's impact now and in the future. Through this work the Member States and the Commission services are identifying blockages to the implementation of EU policies on the ground and working to remove these barriers through the funding and mechanisms of cohesion policy.

5. CONCLUSIONS AND RECOMMENDATIONS

The strategic reporting exercise is an important improvement in accountability in the delivery of the policy's objectives …

The Member States have fulfilled their responsibility and produced a significant effort to report on progress. Through the experience gained in this first exercise it should be possible for the 2012 national reports to be more concise and more focussed on outputs, results and strategic developments. Yet, while the national reports were prepared in close cooperation with the relevant managing authorities it would have been useful to use more systematically public presentation and debate.

… though this first exercise has limitations, it is a promising basis for building a more thorough peer review of performance, giving an impetus to a more results oriented policy.

Due to the specific legal basis and strategic objectives set, the scope of the strategic reports was limited to the 2007-2013 programmes. This provides only a partial picture of the impact of the policy. Now that the 2000-2006 programmes have ended and spending is clearly accelerating in the 2007-2013 programmes data on the outputs and results on the ground is expected to show acceleration.

The common system of reporting on projects selected has proved its worth in providing "real time" data on the project pipeline. The Member States should ensure that the annual programme reports are accompanied by accurate and complete data allowing a rolling monitoring of progress and a better understanding of programme content.

It is encouraging that many Member States provided information on EU defined core indicators for ERDF and Cohesion Fund interventions, even though this was not obligatory. Reporting on common indicators should be reinforced. The specific programme reports due in mid 2010 and the next round of national strategic reports in 2012 must analyse the progress of programmes in achieving objectives and signal a clear move from reporting on inputs to discussing outputs, results and early impacts.

This exercise brings important and timely messages into the debate on the potential of the policy to accelerate the exit from the crisis by addressing development needs while responding to the effects of the crisis …

The national reports have emphasised the fundamental relevance of the strategies agreed in 2007 and the value of cohesion policy as a policy aiming at long-term economic development.

In general, the measures to deliver the agreed strategies and objectives are implemented at a good pace while adapting to the sharp change in the economic climate. After an average of 18 months of effective implementation on the ground 27.1% of projects are selected and progress is evidenced by accelerating expenditure. The projects to deliver the agreed EU earmarked priorities are selected as quickly as non-earmarked priorities. These EU priorities include smart, clean and socially inclusive investments in infrastructures (energy efficiency, broadband, social infrastructures) business support (eco-innovation, financial engineering) and flexible labour markets.

This positive progress can be partly explained because the Member States are using flexibility within programmes to address changing needs under the agreed priorities. The cohesion policy recovery package of late 2008, involving increased pre-financing, rule changes to improve the speed of reimbursement and simplifications has been widely taken up, while the Member States have also simplified their own rules.

However, no one can be complacent. Using the information exchanged through this exercise the Member States can benchmark their rate of progress in different priority themes with the EU average, identifying areas of good and slow progress.

The Commission therefore calls on the Member States:

- To quickly implement the already selected projects;
- To accelerate the selection of quality projects to contribute to the agreed programme objectives, in particular to facilitate the exit strategy from the current economic crisis;
- To ensure that, in a climate of growing pressure on national budgets, the national co-financing needed to fund the agreed investments is made available so that the EU budget resources are fully mobilised.

For its part, the Commission will bring forward in 2010 communications outlining how it believes cohesion policy 2007-2013 can foster support to the objectives set for the Europe 2020 strategy. In particular, these documents will address how the current programmes can reinforce employment policies and social recovery and inclusion; support for sustainable development and support to innovation at national and regional level. The Commission is committed to continue working with the Member States on improving delivery of the programmes and addressing bottlenecks in different thematic areas.

… while also providing a valuable monitoring tool and pointing to areas where efforts must be reinforced ….

Delays in selecting projects in important investment fields are clearly evident from the national reports. The Commission calls on the Member States to target these priority areas - if necessary by putting in place action plans to correct the delays while there is still time. The

Commission has identified the following priority areas facing delays generally or a lack of homogenous progress across the Member States:

- In the **rail sector** there are difficulties in preparing important investment in a core group of Member States based both on reported progress and results from evaluations;

- **Certain energy and environmental investments** are not progressing as expected. This must be redressed by the Member States and regions for them to fully contribute to the EU's sustainable developments goals;

- Investment in the area of the **digital economy** - rolling out broadband and exploiting ICT use in the public and business sectors - is slower than average with uneven performance, even if some good practices are identified;

- Progress on delivering the priority of **social inclusion** is relatively slow and not spread evenly across the funds and programmes. Action is needed to mobilise EU resources to contribute to the achievement of the proposed poverty reduction target fixed in the Europe 2020 strategy;

- There are observed delays in implementation of **governance and capacity building** measures which need to be addressed to improve public sector performance, especially in view of the crisis.

… in order to deliver an early contribution to the Europe 2020 strategy.

By pressing ahead now with the good progress already made in many priority areas and addressing the delays, the Member States, regions and programme stakeholders can take ownership and achieve the objectives of the 2007-2013 programmes. The Commission calls on the Member States to improve implementation of programmes with increased transparency, networking and good practice exchange and policy learning on cohesion policy priorities to make a very important early contribution to achievement of the Europe 2020 strategy, its flagship initiatives and its quantified targets.