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**REPORT 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 2013
on programme implementation 2007-2013**

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Cohesion policy: Strategic report 2013 on programme implementation 2007-2013

1. INTRODUCTION

This report provides the second strategic overview of the implementation of the 2007-2013 cohesion policy programmes which are due to end in 2015. The first report was presented in March 2010. This report summarises the 27 strategic reports presented by the Member States at the end of 2012¹.

Cohesion policy invests to modernise national and regional economies by supporting innovation and job creation in SMEs, R&D, labour markets and human capital, by building key network infrastructures, protecting the environment, enhancing social inclusion and building administrative capacity. Effective implementation of the policy has become even more important since 2008 in view of the economic crisis as it ensures continued public investment in the context of fiscal consolidation in many Member States.

The reports provide an overview of the socio-economic challenges Member States are facing and the implementation of the EU funded programmes in a period of historic difficulty. In so doing, they contribute to strengthen transparency on and accountability for the delivery of cohesion policy objectives.

An accompanying Staff Working Document² explains how the Commission set about assessing progress and presents 13 thematic fact sheets drawing together material on implementation.

This report shows that, since the 2010 report, implementation has accelerated making important contributions to many areas necessary for sustaining growth and creating jobs. Equally, evidence points to clear progress towards the objectives set at the beginning of the period.

The policy has also demonstrated its capacity to adapt to changing circumstances and to respond effectively to the crisis. That said, significant and additional results are still expected from the programmes up until the end of 2015 and it is important to maintain and even redouble the efforts made so far.

Finally, the Commission has proposed significant changes for the 2014-2020 period related to many of the issues analysed in this report: concentration of resources, focus on results, reliable reporting against common indicators, a performance framework and evaluation. This report and the accompanying documentation support the relevance of the changes proposed.

¹ Articles 29-30 of Council Regulation (EC) No 1083/2006. The publicly available reports are here: http://ec.europa.eu/regional_policy/how/policy/strategic_report_en.cfm.

² SWD(2013) 129 final, 18.04.2013.

2. SOCIO ECONOMIC DEVELOPMENTS AND TRENDS

The financial and economic crisis that started in 2008 has dramatically altered the context for cohesion policy programmes. In 2008 GDP growth in the EU was already very low (0.3%), but in 2009 it shrank by more than 4%. In 2010 and 2011, the EU returned to positive growth rates, but a further contraction is likely to have occurred in 2012³. The recession has been particularly severe in the Baltic States, Greece, Ireland, Portugal and Spain. The Baltic States and Ireland have managed to switch back to a positive growth path and are forecast to continue growing. Portugal and Spain will still be in recession in 2012 and 2013 but are expected to return to positive growth in 2014. Cyprus, and Greece, however, are faced with continuing GDP decline⁴.

Employment in the EU has declined significantly since the onset of the crisis. Over the five years to the last quarter of 2012 six million jobs were lost. After a slight recovery from early 2010 it has been trending down since mid- 2011. The fourth quarter of 2012 saw a decline in employment by 0.4% compared with the 4th quarter of 2011.

Unemployment stood at 10.8 % in January 2013 compared to 8.1 % in January 2009. The latest data show clearly the divergence among Member States, especially between the North and South of the Eurozone. The unemployment rate gap between these two areas was 3.5 points in 2000, it fell to zero in 2007, but then widened to 10.5 points in December 2012. The gap between the highest and lowest unemployment rates, 4.9 % (AT - January 2013) and 27.0 % (EL - November 2012), is the biggest ever. The weakness in economic activity will continue to negatively affect labour markets. The unemployment rate in the EU is expected to increase further to 11 % in 2013 and 2014.

The economic downturn also triggered a sharp deterioration in the business climate and in consumer confidence. Total investments (gross fixed capital formation) dropped from 21% of GDP in 2008 to 18% in 2012. Exports of goods and services and foreign direct investments declined rapidly in 2009, but have since recovered.

Evidence⁵ suggests that the economic crisis and the responses to it are leading to widening regional disparities, e.g. between capital or manufacturing regions and less developed or peripheral regions.

3. THE CRISIS: PROBLEMS AND RESPONSES

The negative shocks of the crisis were not felt evenly or simultaneously in Member States, regions and cities. Many national reports reflect broad trends, but the timing and intensity vary.

Some programmes experienced a decline in demand for longer term support for innovation, a decline in the size of certain projects, and longer timescales for delivery. At the same time, there has been a growing demand for, or resort to, such measures as labour market interventions, generic business support and access to finance for SMEs. Many programmes are facing problems with national or regional

³ AGS 2013, november 2012 - http://ec.europa.eu/europe2020/pdf/ags2013_en.pdf.

⁴ http://ec.europa.eu/economy_finance/publications/european_economy/2013/pdf/ee1_en.pdf.

⁵ 8th Progress Report, forthcoming.

See also DG REGIO Expert Evaluation network "Achievements of Cohesion Policy Synthesis report 2012" (ERDF/ Cohesion Fund) Section 2 - http://ec.europa.eu/regional_policy/information/evaluations/index_en.cfm

co-financing⁶ and with exchange rate variations⁷ but are also, more positively, experiencing a decline in construction costs⁸.

Fiscal consolidation has hit government fixed investment particularly hard: it declined by 12% in real terms in the two years 2009 to 2011 across the EU and by at least this amount in BG, RO, ES, GR and PT. The ERDF and the Cohesion Fund support is equivalent to over a third of annual government capital expenditure in most EU12 countries over the programming period. Since, however, much of the total available funding has yet to be paid to Member States, the amount still to be claimed until the end of the period is equivalent to around half or more of annual capital spending in 8 of the EU12 countries and to almost a third in GR and PT. It is also of a similar size in the Convergence regions of ES and IT. These figures underline the critical importance of cohesion policy funding for development expenditure in many parts of the EU⁹.

To respond to these challenges, the EU institutions reacted swiftly by mobilising all instruments available and, where necessary, by adapting them.

3.1. Programme flexibility

Almost EUR 36 billion – or 11% of the total funds – were reprogrammed from one thematic area to another by the end of 2012 to support the most pressing needs and strengthen certain interventions. Of that, more than EUR 30 billion concerned the ERDF and Cohesion Fund and nearly EUR 5.5 billion the ESF.

The main changes have brought about increases for innovation and R&D, generic business support, sustainable energy, cultural and social infrastructure, roads and the labour market. Reductions have affected ICT services, environment measures, rail, other transport, training and education and capacity building measures – all areas with reduced demand because of the crisis or where programmed resources proved over-ambitious.

The Commission supported Member States in this reprogramming work. First, it established in July 2011, a Task Force to help Greece delivery the EU/IMF adjustment programme and speed up its absorption of EU funds. Then, the European Council endorsed in 2012 the Youth/SME Action Teams in selected Member States to address the youth employment challenges (see 4.1).

3.2. Other anti-crisis measures

As part of their response to the financial crisis, the EU institutions agreed to a package of measures to promote simplification and improve the flow of EU financing¹⁰. Four measures are again widely mentioned in the 2012 national reports:

- **Improving cash flow of programme authorities:** additional EU advance payments, made in 2009, of EUR 6.25 billion were used to pre-finance mainly public beneficiaries (e.g., municipalities).
- **Declaration of expenditure related to major projects not yet approved:** used by nearly all Member States with large infrastructure projects.

⁶ CZ, GR, IT, PL, PT, RO, and SK.

⁷ PL and UK.

⁸ BG and PL.

⁹ Expert evaluation network on the performance of Cohesion policy 2007-2013. Synthesis of National Reports 2012: http://ec.europa.eu/regional_policy/information/evaluations/index_en.cfm#1.

¹⁰ http://ec.europa.eu/regional_policy/sources/docoffic/2007/working/economic_crisis_sec20101291.pdf

- **Simplification or rationalisation of national or regional procedures:** more rapid implementation was secured, by paying advances to public authorities and by increasing advances to enterprises under state aid schemes¹¹.
- **Reduction of national co-financing:** Respecting the regulatory ceiling, the Commission approved reductions in national co-financing requirements for some Member States (ES, GR, IE, IT, LT, and PT and to a lesser extent BE, FR and UK). Moreover, the EU institutions approved further reductions in national co-financing by temporarily increasing co-financing rates up to 95% for Member States with the greatest budgetary difficulties (GR, HU, IE, LV, PT and RO). The effect of lower national public co-financing is to reduce the total programme investment volumes by around EUR 15.5 billion – some 3.1% of the total planned investment or nearly 11% of national public co-financing. The largest relative reductions in public co-financing occurred in IE, PT, LV, GR, and ES and ranged from 26% (ES) to 47% (IE). The objective has been to take pressure away from national budgets at time of crisis while at the same time ensuring continued investment in projects with growth and job creation potential.

3.3. Other implementation challenges

While reports cite the crisis as the main cause of difficulties, some¹² identify other contributing factors. Those include the late start of the programmes due to the extension of the previous period, an underlying lack (or even decline) in administrative capacity, the challenges in preparing major infrastructure projects and obtaining Commission approval, changes in legislation, inconsistent political ownership (changes in national and regional government, changes to institutions) and the effects of national sectoral reforms.

4. CONTRIBUTION TO COMPETITIVENESS AND JOB CREATION

Cohesion policy programmes were designed to contribute to the Lisbon Strategy for growth and jobs. The Lisbon Strategy was succeeded in 2010 by the Europe 2020 Strategy. Successive European Councils have confirmed the EU2020 objectives and the June 2012 European Council Conclusions on the Compact for Growth and Jobs emphasised the role of the Structural and Cohesion Funds in supporting those objectives.

Most Member States state that their initial investment strategies and objectives continue to be valid despite the sharp, crisis induced change in the socio-economic context. The majority of reports are optimistic that the programmes will attain most of their objectives.

A number of reports underline that cohesion policy has been instrumental in sustaining public investment in vital economic areas such as research and development, SME support and sustainable energy, re-industrialisation, social inclusion, reforms in education and training systems and labour market challenges.

Financial Instruments have been used in nearly all Member States to support investment and job creation in SMEs in a period of deleveraging by the financial sector. At the end of 2011, cohesion programmes had contributed more than EUR 8.9 billion (4.4% of the total ERDF) to financial instruments for enterprises, of which more than EUR 3.6 billion (40%) had been paid to enterprises.

¹¹ BG, CY, ES, HU, IE, IT, LT, LV, SI, and UK

¹² BG, IT, LT, LV, PL, RO, SI, and SK.

The importance of the ESF in dealing with the crisis depends on its role in supporting the labour market. For those Member States badly hit by the crisis but with the capacity to respond, the ESF has been the main source of support for active labour market policies. It has helped to strengthen these policies in Member States facing budgetary restrictions where, historically, there had been a tendency to support mainly passive measures. In these countries, changes in programmes were directly linked to changes in labour market policies.

Several Member States emphasise the role that the ERDF and ESF play in fostering national reform efforts, particularly in the field of better regulation, reform of education systems, the labour market, public administration, and structural reforms in the water sector. In addition, the ESF has fostered capacity building for the social partners.

Member States also describe action they have taken in response to country-specific recommendations endorsed by the EU Council. For example, PL reports on remedial actions such as a railway plan, higher education reform and linking science and business through 'Building on knowledge'. LT reports on measures to tackle high unemployment, as well as to improve energy efficiency in buildings. The UK underlines the role of cohesion policy in fostering regional productivity and stimulating growth and employment.

4.1. Focusing on Youth and SMEs

In January 2012 the European Council endorsed an initiative for Youth/SME Action Teams in the eight Member States that were worst affected by youth unemployment. As a result of the work of the Action Teams¹³ of Commission officials and national representatives, an estimated additional 780,000 young people are likely to benefit from the ESF reallocations for youth employment and training programmes. ERDF measures under this initiative could support an additional 54,800 SMEs compared to what was originally planned. These results demonstrate the ambitious action taken by a number of Member States to respond to high levels of youth unemployment.

4.2. Quantifying progress in delivering policy objectives

The reports contain a wealth of information and data. This is the first programme period in which the Commission can aggregate and analyse data relating to common output indicators in annual implementation reports and the national strategic reports. These data show that cohesion policy has delivered tangible results on the ground and that there is a considerable acceleration in outputs and results reported in 2011 compared to previous years.

The following concrete achievements reported by the programmes can be aggregated to European level¹⁴.

- Almost 400,000 jobs have been created to date, of which 190 000 since 2010. This includes :
 - more than 15 600 research jobs (9 500 since 2010)
 - more than 167 000 jobs in SMEs (69 100 since 2010)

The largest number of new jobs reported were in the UK, IT, DE, ES, PL and HU. This demonstrates that cohesion policy support has a positive and in some cases significant counter-cyclical effect on employment.

¹³ http://ec.europa.eu/europe2020/pdf/barroso/report_en.pdf

¹⁴ More details by Member State can be found in the thematic factsheets which accompany this report.

- Support has been given to 53 240 RTD projects and 16 000 co-operation projects between enterprises and research institutions.
- 53 160 start-ups have been supported (28 000 since 2010) mostly in the EU15 but with significant numbers also in HU and PL.
- Nearly 1.9 million more people now have broadband access (concentrated in ES, FR, IE, IT).
- 1 222 megawatts of additional electricity generation capacity has been created from renewables since 2007 mostly in the EU15¹⁵.
- 2.6 million more people are now served by water supply projects and 5.7 million more people by waste water projects.
- Over 5 000 transport projects have been launched and outputs are becoming visible on the ground: 460 km of TEN-T roads and 334 km of TEN-T rail¹⁶.
- Nearly 3.4 million people have access to improved urban transport.
- Over 19 000 educational infrastructure projects have received support, benefiting 3.4 million students, mostly in IT, but with significant achievements also in BG, ES, GR.

For the ESF, a significant acceleration in the number of participants took place between 2009 and 2010 (from 10 to over 15 million participants annually) and this high level has been maintained. The profile of participants is very diverse reflecting different national conditions and the priorities for ESF support. From 2007 to the end of 2011, Member States reported the following results:

- There were 12.5 million participants in ESF actions to support access to employment through training or other forms of assistance. Two thirds of all participants were inactive or unemployed. As a result, 2.4 million found a job within 6 months of completing the intervention, a significant achievement given the economic downturn.
- 15 million participants were young (under 24 years) and the figure increased significantly in 2010 and 2011 in response to the crisis. In DE, FR and HU young people account for 40% or more of all participants.
- Nearly half (46%) of participants have lower secondary education at most. In DE, GR and MT they account for over 60% of all participants but less than 20% in FI, SE, SI and CY. In CY, EE, LT and SI, 40% or more have tertiary education.
- In the area of lifelong learning (LLL), the ESF supported around 5 million young people. Regarding the education profile, 5.5 million participants had low skills¹⁷.
- So far, over 14.5 million final recipients were covered and a broad range of target groups reached in the area of social inclusion. 18% of participants were from groups which are particularly vulnerable on the labour market. Though the situation varies, UK and AT seem to be particularly successful in reaching

¹⁵ This figure is understated as regions and Member States using different measurement units had to be excluded from the aggregation.

¹⁶ These numbers are due to increase significantly in the next months as the delivery of major infrastructure projects takes time and many outputs will only become available at the very end of the programming period.

¹⁷ For lifelong learning, data quoted cover the period from 2007 to end 2010.

out to people with some form of disability. Others, notably AT, CY, NL and LV are successful in using the ESF to support people from a minority or with migrant background.

- About 700,000 participants, notably civil servants, have upgraded their skills with ESF support. Four Member States (BG, GR, HU, and RO) implement a programme explicitly dedicated to institutional capacity building.
- Over half of ESF participants (52%) are women, which is in line with the overall ESF goal to promote equal opportunities and raise the average level of women's participation in the workforce. In CY, EE, LT, LV they amount to more than 60%.

This information provides important insights on implementation that we did not have before, even if it does not cover the full effects of the policy as many other indicators cannot be aggregated. While the Commission notes considerable progress in recent years in the quality of reporting, many programme authorities can make greater use of core indicators for the ERDF/CF and improve the accuracy of reporting. Greater use of common result indicators is also needed for the ESF. Data covering up to end 2012 will be available in mid 2013. The Commission will continue to publish the reported data until closure in 2017.

4.3. Evaluation evidence

Evaluation gauges how programme activities feed into policy objectives and plays an important role in informing policy debate. The evaluation requirements on Member States during this programming period do not specify a need for impact evaluation. The evidence generated relates to specific needs of Managing Authorities. Some, notably Poland and Italy, have carried out many evaluations to date, many on a small scale, but including some more strategic studies. France and Sweden have drawn together all their evaluation findings.

In the first half of the programming period the evaluations were mostly process-oriented, designed to contribute to a smoother implementation of programmes and to justify programme changes. A large number of mid-term evaluations were carried out (systematically in DE, FR, NL, UK). The evaluations tended to confirm the validity of the initial strategy, though several recommended adjustments in both the allocation of funding and implementation procedures. The impact of the economic crisis was often the principal reason for changes being made.

From 2011 more evaluations were launched to assess the effects of programmes. While it is impossible to aggregate results across Member States, a review of these evaluations for DG Regional and Urban Policy¹⁸ found a growing number of evaluations of RTDI and enterprise support measures with fewer for infrastructure (unsurprising since these interventions take longer to deliver). Evaluations record positive results for RTDI. In many cases, interventions generated a critical mass which enabled a leap forward in national or regional R&D activity. The majority of enterprise support evaluations also reported positive results.

The number of evaluations of ESF programmes increased significantly since 2010. They show that the ESF relevance has increased dramatically since the beginning of the programming period, though the crisis has had a negative role on ESF effectiveness.

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http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/eval2007/expert_innovation/2011_synthesis_national_reports.pdf

The Commission has been evaluating the current programmes using two expert evaluation networks and continues this work. The ex-post evaluation of the current period is required by end-2015. The Commission's work is dependent on the availability of monitoring systems and evaluations in the Member States and regions. There is clearly a need for more high quality evaluations of the effects of interventions, both during the current period and in the future. In the 2014-2020 programming period, there will be a requirement for Managing Authorities to produce an evaluation plan and to evaluate the contribution of cohesion policy interventions to achieving the objectives of programmes.

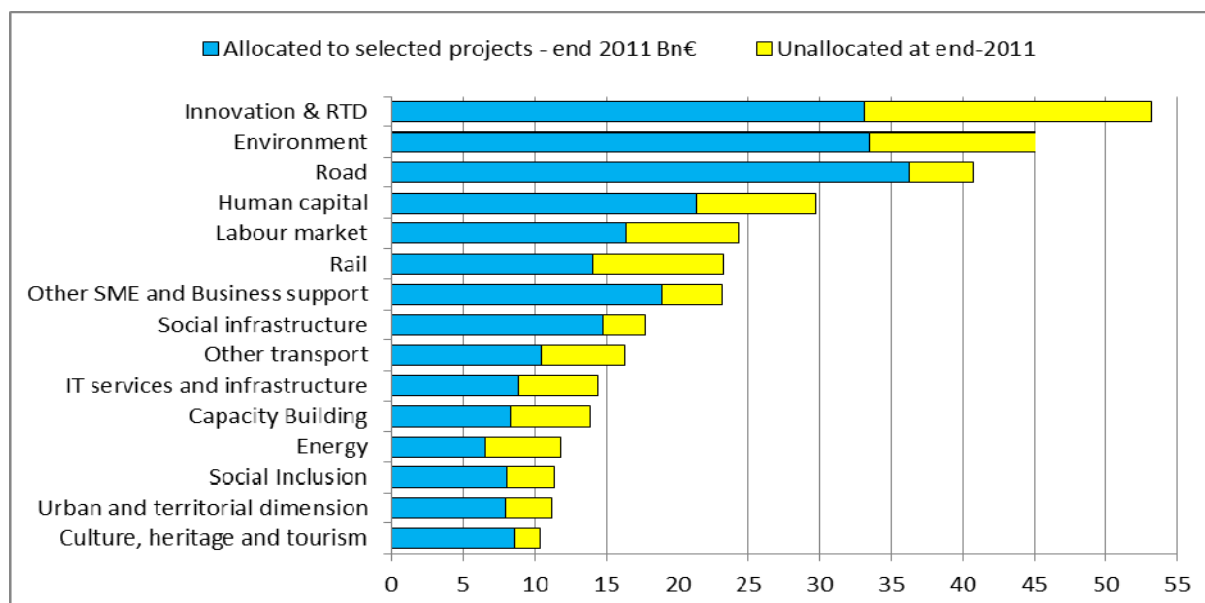
4.4. Absorption of Funds

The figures of section 4.2 tell only part of the story as there is a timelag to the delivery of outputs and results and not all indicators can be aggregated to the EU level. They can be complemented by financial information on the rate of project selection and the expenditure declared to the Commission.

Project selection trends

Five years into the programming period and four years before the end, the reported financial volume of projects selected was EUR 246 billion representing 71% of available EU resources. Graph 1 shows the variation in the selection of projects by theme, with some themes (e.g., roads, other business support, social infrastructure and culture heritage and tourism) ahead of the average with others behind (e.g., innovation and R&D, rail, IT services and broadband, energy and capacity building). The latter group includes areas where administrations have less experience of delivering schemes (innovation, ICT, capacity building) as well as areas like rail, which are traditionally more complex to deliver than other infrastructures. Behind the averages there are considerable differences between Member States.

Graph 1: Rate of project selection by major themes - 2007-2011



While the detailed 2012 figures will not be formally notified until mid 2013¹⁹, the latest estimates put aggregate project selection by end 2012 at 88%, with around EUR 304 billion now allocated to projects.

Payment trends

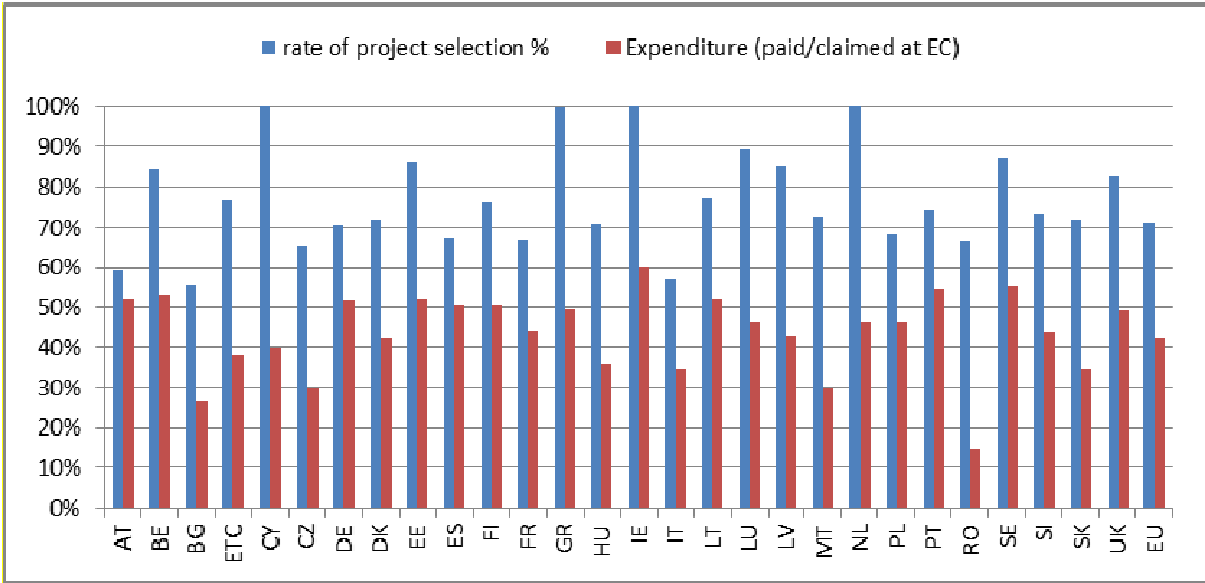
The progress in project selection and payments varies between Member States as shown in Graph 2. It has progressed significantly during 2012. Since there is a systemic delay between expenditure occurring on the ground and its being declared to the Commission, progress is underestimated. Still, for those Member States which lie significantly below the average there is a risk, unless things speed up significantly, of projects not being implemented in the programming period.

The picture across Member States is very diverse. Absorption is higher in AT, BE, DE, EE, IE, LT, PT and SE. The expenditure rates are especially slow in BG, CZ, HU, IT, MT, SK and, in particular, RO. There is a growing risk in these countries that by not mobilising the available EU funds promptly a significant volume of them will be lost and the intended objectives not achieved.

The rate of expenditure is broadly similar across the funds. However, ESF expenditure is in advance of ERDF and Cohesion Fund expenditure in AT, IT, LV, PT, with ERDF/CF in advance of ESF in BG, GR, HU, NL and SE.

¹⁹ This information will only be available by theme on receipt of the 2012 Annual Implementation Reports (end June 2013).

Graph 2: Reported aggregate rates of project selection (2007-2011) and payments declared by Member States (2007-January 2013)



5. CONCLUSIONS

There is clear and growing evidence of programmes delivering across many policy priorities and Member States.

Cumulative figures on core indicators reported for the ERDF and Cohesion Fund programmes demonstrate the important contributions these programmes are making in many areas where investment is necessary in terms of economic modernisation and competitiveness. There was a very significant increase in outputs reported in 2011 compared to previous years. For the ESF very large numbers of people are benefiting from the programmes which are investing in access to employment, education and training, social inclusion, and administrative capacity building.

Cohesion policy programmes have shown that they have the flexibility to respond to the crisis...

The inbuilt flexibility of cohesion policy has enabled regional and national needs to be met during the crisis. More than 11% of the available budget has been reprogrammed since the beginning of the period. Significant reprogramming in 2011 and 2012 ensured that programmes continued to be aligned with changing needs.

... but with much still to be delivered and risks in some strategic areas.

Significant results are still expected from these programmes over the next 33 months delivering job creation and smart, sustainable and inclusive growth. Member States and regions must redouble their efforts and implement the selected projects by the end of 2015. Such an effort would also make an important contribution to the objectives of the Compact for Growth and Jobs launched by the European Council in June 2012.

This will be challenging for two reasons. As the policy discussion is turning increasingly to future programmes, attention may switch to the new programming period. In addition, the pressure on national finances may make it hard for some regions to find the co-financing to implement the programmes.

In some Member States there are important delays in the areas of innovation and R&D, rail, IT services and broadband, energy and capacity building. Some Member States may seek to reprogramme in 2014-15 towards areas where it is easier to spend money (such as local roads). Any further re-programming should be clearly oriented toward investments which maximise the impact on growth and jobs and be carefully assessed to maximise the possibility for effective implementation at this late stage in the programming period.

The Commission is willing to consider reductions in national co-financing.

Any such reductions should, however, be conditional on (a) ensuring that they help to deliver the high priority areas for the policy, such as innovation in SMEs, energy efficiency and renewables, rail, education and social inclusion, and capacity building, and (b) earmarking the national resources thus released for supporting national growth-enhancing investment, particularly investment with a short-term and anti-cyclical effect or whose implementation goes beyond the end of the current programming period.

There are important lessons to be drawn from the past and the current programmes ...

Learning from the late start of the 2007-2013 programmes, the Commission will continue to urge the adoption of all necessary legislative acts to avoid delays in starting the new programmes. It will also work closely with the Member States on the adoption of the new programmes and has already initiated informal preparations with all Member States. The Commission recalls that eligibility under the current period ends in December 2015²⁰ and Member States must manage the overlap of current and future programmes to avoid delays in investment under the new programmes.

...and evaluation and use of indicators needs to be strengthened ...

It is important that Member States and managing authorities continue to evaluate the impact of interventions supported for the remainder of this programming period. This will lead to better understanding the quality of investments and which measures are most effective and why.

Equally important is to consolidate the use and monitoring of indicators, and of common indicators in particular. This is a central feature of the next programming period.

... and better programming is needed for the future.

The 2007-2013 programmes have strong mechanisms for tracking the flow of money and absorption, but weaker ones for setting, monitoring and evaluating objectives. The reports are therefore strong on absorption but struggle to provide a convincing narrative, supported by quantified information on progress in achieving objectives. This report and its accompanying Staff Working Document are a first attempt to analyse the inputs, outputs and results reported by Member States. The Commission believes that public debate on these facts and figures will give an important incentive to Member States and regions to improve the quality of their reporting. Ultimately this feedback loop will contribute to more effective delivery of policy objectives.

The analysis undertaken for this report confirms the relevance of the proposals made by the Commission for the next programming period to put in place a stronger results

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Article 56.1, Council Regulation (EC) N° 1083/2006.

and performance orientation for the policy, with thematic and financial concentration, ex ante conditions in place to ensure investment quality and prompt implementation, and regular, reliable and earlier reporting. Good progress is being made in agreeing this fundamental shift in policy focus with Member States and the European Parliament. This will deliver more accountability in the future for the results achieved as well as the resources spent.