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**REPORT FROM THE COMMISSION**

20TH ANNUAL REPORT ON IMPLEMENTATION OF  
THE STRUCTURAL FUNDS (2008)

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## REPORT FROM THE COMMISSION

### 20TH ANNUAL REPORT ON IMPLEMENTATION OF THE STRUCTURAL FUNDS (2008)

This report is presented in accordance with Article 45(2) of Regulation (EC) No 1260/1999 laying down general provisions on the Structural Funds. It covers the activities linked to Structural Funds 2000-2006 assistance during 2008.

More detailed information is available in the Commission Staff Working Document (attached to this report).

#### 1. INTRODUCTION

2008 was the ninth year in which Structural Funds programmes and projects for the 2000-2006 programming period were implemented. Altogether 718<sup>1</sup> were managed in 2008.

In addition to implementation of 2000-2006 Structural Funds programmes and projects and preparation for their closure, the Commission was also heavily involved in planning and programming of 434 programmes (317 ERDF, 117 ESF)<sup>2</sup> of the 2007-2013 period in 2008.

Efforts were continued to improve the quality of programmes and projects co-financed by the Structural Funds, an objective which also covers reliable financial management of programmes. The partnership model, better financial management, control and evaluation have produced very high quality results and also made for good governance of co-funded programmes and projects.

The ex post evaluation of Objectives 1 and 2 programmes for 2000-2006 is expected to be completed by the end of 2009. The ex post evaluation for the ESF programmes is planned to be finalised early 2010. Furthermore, the ex post evaluations for Community initiatives URBAN and INTERREG were also launched in 2008. The ex post evaluation of the EQUAL Community Initiative was launched early 2009. Concerning the FIFG, the outsourcing of the ex post evaluations was launched at the end of 2008.

Exchange of experience was promoted, notably through interregional and urban networks and the conference "Regions for Economic Change" in February 2008, where for the first time "RegioStars" were awarded to good practice innovation projects.

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<sup>1</sup> 226 Objective 1 and Objective 2, 47 Objective 3, 12 FIFG (outside Objective 1), 81 INTERREG, 71 URBAN, 27 EQUAL, 73 LEADER+ and 181 Innovative Action programmes

<sup>2</sup> See Communication on the results of negotiations on strategies and programmes for the programming period 2007-2013.

As the biggest event ever organised in relation to Cohesion Policy, the OPEN DAYS "European week of regions and cities", was held together with the Committee of the Regions and 216 regions and cities across the EU with the headline "Regions and cities in a challenging world".

Both the Slovenian and the French presidencies acknowledged the importance of the ESF by organising high level conferences, namely one in Maribor in June 2008 and one in Le Havre in September 2008.

## **2. ANALYSIS OF IMPLEMENTATION**

### **2.1. Budget Implementation**

#### *2.1.1. ERDF*

2008 was a good year in terms of budgetary execution despite the worsening economic climate. The overall execution rate for payments reached 99.9% (the same result as in 2007 and 2006) with EUR 15.1 billion being disbursed to Member States for regional programmes and projects. The execution level of payment appropriations was higher than initially foreseen for all objectives: EUR 11.5 billion were paid on Objective 1, EUR 2.4 billion on Objective 2, EUR 1 billion on INTERREG III and EUR 0.2 billion on other programmes (Urban, Innovative Actions, Peace).

The 2008 execution of the 2000-2006 period has exceeded the initial forecasts (EUR 15.1 billion paid out instead of the budgeted EUR 9.2 billion). At the end of 2008, commitments from previous years on which payments were still to be made (RAL) amounted to EUR 12.6 billion to compare with EUR 27.7 billion as at the end of 2007. This represents 9.7 % of total commitments for the period 2000-2006 and is equivalent to 7 months of commitments on the basis of an average EUR 20 billion being committed by year.

In 2008, the so-called "n+2" rule did not apply to the 2006 commitment tranche. Instead, the total amount to be de-committed under the "n+2" rule for the programming period 2000-2006 will be finalised at the closure of the operational programmes.

For the whole period, EUR 118 billion have been paid to Member States as at the end of 2008. This represents an absorption rate for all Member States of 91 % of the EUR 129.4 billion overall allocation.

In the context of the financial crisis and the Recovery Package proposed by the Commission, an extension of six (or twelve) months has been granted on a programme-by-programme basis for the Member States which opt for it. Out of 379 programmes of the 2000-2006 period, 281 (or 74 %) with 90 % of ERDF funds have chosen to extend their eligibility dates.

#### *2.1.2. ESF*

In terms of budgetary execution, 2008 was a satisfactory year for the ESF despite the exceptional circumstances due to the economic and financial crisis.

Concerning the 2000-2006 programming period, the payment credits consumption during 2008 reached EUR 6.394 billion which corresponds to 98% of the annual payment credits allocation. The 2008 consumption by objective ranges from 90.91% of annual payment credits for Objective 2 to 100% for Objective 1.

The total outstanding commitments at the end of 2008 stood at EUR 6.4 billion (compared to EUR 12.9 billion in 2007). This represents 9.3 % of total commitments for the period 2000-2006.

In 2008, the so-called "n+2" rule did not apply. The total amount to be de-committed under the "n+2" rule for the programming period 2000-2006 will be finalised at the closure of the operational programmes.

For the whole period, EUR 62.2 billion (90.7% of the overall allocation) has been paid to Member States as at the end of 2008.

In line with the regulatory framework, payments for the 2000-2006 period could continue until the end of 2008. However, in the context of the financial crisis and the recovery package proposed by the Commission, an extension of six (or twelve months) has been granted on a programme-by-programme basis for the Member States which opt for it. Out of 91 programmes where DG EMPL is "chef de file", 68 (or 75 %) have chosen to extend their eligibility dates.

### 2.1.3. *EAGGF*

The total amount paid in 2008 from the EAGGF-Guidance Section was EUR 2.0 billion. The financial execution rate of EAGGF payment appropriations for rural development programmes for the period 2000-2006 reached 97.2% (taking into calculation all Community funds available on EAGGF budget lines, including an amount of EUR 0.19 billion transferred at the end of 2008 from other budget lines not related to the Structural Funds). If the execution rate were calculated using the initial budget for payment appropriations, the execution rate would attain 100%.

In 2008 there were no commitments for rural development programmes related to the 2000-2006 period, except an amount of EUR 0.14 million concerning one programme.

At the end of 2008 commitments from previous years on which payments were still to be made (RAL) totalled EUR 1.8 billion, compared with EUR 3.9 billion in 2007.

As stated above, the year 2006 was the last of the programming period and so the "n+2" rule regarding decommitments was not applied in 2008. The amount of any such decommitments will be calculated at closure in line with the Commission guidelines on closure of the 2000-2006 programmes.

### 2.1.4. *FIFG*

The budgetary implementation in 2008 was highly satisfactory. The overall execution rate for payments was 97.8%, with EUR 320 million being disbursed to the Member States. Concerning the execution level of payment appropriations, EUR 195.7 million were paid in Objective 1 and EUR 124.3 million outside Objective 1.

The 2008 execution of the 2000-2006 period is EUR 320 million compared to the initial forecast of EUR 269 million.

The total RAL for the FIG at the end of the year 2008 reached EUR 449.3 million (compared with EUR 812.5 million in 2007). This represents 11.3 % of total commitments for the period 2000-2006.

For the whole period, as at the end of 2008, EUR 3 515.2 million have been paid to Member States. This represents an absorption rate for all Member States of 89.3 % of the EUR 3 935.8 million overall allocation.

## **2.2. Programme Implementation**

### *2.2.1. Objective 1*

Objective 1 programmes focused on basic infrastructure projects (41.4%), with over half of all investment in this category spent on transport infrastructure (51.9%). More than a third (33.3%) of Objective 1 resources was invested in the productive environment, where the focus continues to be on assisting SMEs and the craft sector (28.3%). Projects geared to human resources account for 23.2% of resources in Objective 1 regions. The main areas of assistance in this field are almost equally split between labour market policies (31.3%) and education, and vocational training (30.9%).

### *2.2.2. Objective 2*

The main focus of programmes in Objective 2 regions continues to be on the productive environment, with over half of all financial resources devoted to this category (55.5%). Within this field, assistance to SMEs and the craft sector is the most dominant (55.8%). The second most supported field is basic infrastructure, with 29.7% of all Objective 2 resources. Unlike Objective 1 programmes, the most important areas in financial terms are planning and rehabilitation of areas (45.4%). In the category of human resources (10.2% of all investment in Objective 2 regions), workforce flexibility, entrepreneurial activity, innovation, information and communication technologies are the main fields of investment (30.5%).

### *2.2.3. Objective 3*

ESF programme implementation in 2008 continued to be focused on the European Employment Strategy, particularly on the measures aimed at improving employability in the labour market (31.3%), lifelong learning (actions developing educational and vocational training represented 22.3% of the expenditure), social inclusion (20.7%) and equal opportunities (6.4%). A marked difference still remained in concrete implementation of programmes as measured by financial implementation between the EU15, where long established programmes continued to be implemented, and EU10, where some Member States are experiencing considerable difficulties in getting some projects and measures under way.

### *2.2.4. Fisheries outside Objective 1*

Expenditure of the FIG programmes outside Objective 1 focused on processing and marketing (25.2%). The second most important measure was operations by members

of the trade (15.4%), followed by aquaculture (12.4%). The expenditure dedicated to scrapping amounted to 11% in 2008.

## 2.2.5. *Community initiatives*

### 2.2.5.1. INTERREG

By the end of 2008 the 81 INTERREG III/Neighbourhood programmes had selected about 15,000 projects and networks aiming at reducing the effects of national borders, language barriers and cultural differences and developing border areas, supporting strategic development and territorial integration across larger zones of the Union and better integration with its neighbours. Effectiveness of regional development policies and instruments has also been supported through sharing of good practice and exchange of experience.

In 2008, the implementation of 81 INTERREG III/Neighbourhood programmes continued to progress well with a payment execution rate of 85%. Due to the more specific and challenging nature of cooperation programmes and projects de-commitments due to the "n+2" rule could not be avoided for some programmes, representing an overall amount of €3.74 million in recoveries.

### 2.2.5.2. EQUAL

The EQUAL Community Initiative programmes were administratively closed in most Member States. Only a few asked for an extension of the final date of eligibility into 2009 in order to achieve a higher absorption rate and to continue mainstreaming actions.

Most Member States focused their actions under EQUAL on consolidating, documenting and synthesizing project results, on the dissemination actions such as final conferences on the lessons learnt as well as on the integration of the EQUAL *aquis* and approach into the ESF Operational Programmes 2007-2013, e.g. through the transfer of staff, the continuation of national thematic networks, the funding of transnational and innovative projects or the commitment to actively participate in learning networks of ESF managers.

### 2.2.5.3. URBAN

Work continued in 2008 on the management of the 71 operational programmes implementing the URBAN Community Initiative by way of annual reports, monitoring committees and annual meetings. Work on the management of the URBACT I programme also continued by way of monitoring committees, reporting procedures and the close follow-up of the two Pilot Fast Track Networks. The URBACT II programme is also one of the main instruments of the Regions for Economic Change initiative, aiming at bringing best practice and innovative concepts faster into implementation.

### 2.2.5.4. LEADER+

The Community Initiative Leader+ consists of three actions: implementation of local development strategies by public private partnerships, cooperation between rural territories and networking. 73 Leader+ programmes for the EU 15 have been

approved for the period 2000-2006. Recently acceded EU Member States had the option of integrating Leader+ type measures into their EAGGF Objective 1 programmes.

Most of the Leader+ National Networks ended their activity in 2008. The main activity at the end of the programming period was dissemination and know-how transfer. The European Leader+ Observatory issued in 2008 a second and third publication presenting a total of fifty examples of good practice.

#### *2.2.6. Innovative actions*

##### *2.2.6.1. ERDF*

DG Regional Policy also managed 181 Regional Programmes of Innovative Actions (124 were closed up to 31 December 2008, of which 39 were closed during the year 2008), which help to promote strategic innovation in the regions, by experimenting with innovative methods and practices designed to improve the level of innovation and the quality of EU assistance under three themes: knowledge and technological innovation, information society and sustainable development.

##### *2.2.6.2. ESF*

During 2008, the remaining Innovative Actions for 2004 were closed and a considerable number of 2005 and 2006 projects were also finalised. DG Employment, Social Affairs and Equal Opportunities managed the remaining projects selected under the 2005 and 2006 rounds, together with two projects relating to dissemination activities. The DG also held a seminar for 2006 project promoters and cooperated with DG Regional Policy in the initiation of a follow-on network, involving earlier innovative project promoters, notably in Germany.

### **3. CONSISTENCY AND COORDINATION**

#### **3.1. Consistency with other Community policies**

##### *3.1.1. Competition*

There were no major developments to be reported for State aid policy in the reporting period 2008.

##### *3.1.2. Internal market*

Member States are required to ensure that operations co-financed by the Funds comply with Public Procurement Directives. Where the Commission learns of any breach of EC legislation or where audits demonstrate that this is the case, appropriate action is taken. A new regulatory framework for public procurement and the awarding of works concessions has been introduced in order to provide greater legal certainty both for the private and for the public sector.



### 3.1.3. *Environment*

In relation to the on-going programmes, the focus has continued to be on supporting compliance with the Community *acquis* in the field of urban wastewater, water supply, waste management and biodiversity. Other important areas of investment have been in eco-innovation and rehabilitation of polluted soil. The promotion of sustainable development has continued through investments in environmentally-friendly transport and energy and by pro-actively ensuring compliance of projects with environmental legislation.

### 3.1.4. *Transport*

Cohesion programmes continue to be the main source of Community support for the realisation of EU priorities in the transport sector, as introduced in the White Paper “European transport policy for 2010: time to decide” and its mid-term review published in 2006. Accordingly, Funds have been used both in TEN-T projects as well as projects supporting co-modality, energy efficiency in transport, intelligent transport systems and urban transport mobility.

### 3.1.5. *Gender equality*

The Commission worked on the implementation of the “Roadmap for Equality between Women and Men”, reflecting the Commission’s commitment to this issue. In this context, gender equality and gender mainstreaming are cross-cutting issues linked to all programmes in the 2007-2013 programming period. A meeting of the High Level Group on Gender Mainstreaming in the Structural Funds in June 2007 underlined the importance of involving gender bodies in the elaboration and implementation of the programmes.

## 3.2. **Coordination of instruments**

### 3.2.1. *The Structural Funds and the Cohesion Fund*

In 2000-2006, all 25 Member States benefited from the support of the Structural Funds, while 13 Member States also benefited from the Cohesion Fund which supports the less prosperous countries. The Structural Funds have been carefully co-ordinated among themselves, and vis-à-vis the Cohesion Fund (ERDF in particular), to avoid duplication in projects supported.

### 3.2.2. *The Structural Funds and the EIB/EIF*

The Commission and the EIB and EIF reinforced their cooperation by setting up the three initiatives JASPERS, JEREMIE and JESSICA to help with the implementation of individual projects under the 2007-2013 programming period.

2008 was the first full year of operation of JASPERS (Joint Assistance to Support Projects in European Regions). At the end of the year, JASPERS had an active portfolio of 280 assignments and had completed 82 assignments in 2008 compared to 22 in 2007.

The new JEREMIE initiative (Joint European Resources for Micro-to-Medium Enterprises) to improve access to finance for SMEs in the regions had a successful

first year in 2008 being used by regions, managing authorities, as well as in the business and banking sectors.

The JESSICA initiative (Joint European Support for Sustainable Investment in City Areas), focusing on sustainable investment, growth and jobs in Europe's urban areas, introduces a cultural shift in how Structural Funds support is delivered, encouraging recyclable forms of assistance and moving away from an exclusive reliance on grants.

#### **4. EVALUATIONS**

In 2008, the Commission continued to carry out evaluations to support decision-making under the Cohesion Policy.

An analysis of ERDF co-financed innovation projects, putting emphasis on their success factors and the common constraints and obstacles, was completed. The study develops a more in-depth knowledge of the mechanisms supporting innovation on the basis of the evidence from selected ERDF co-financed projects from different regions. Equally, effort is devoted to designing and testing practical methods and tools, which can be used to undertake project analyses.

The ex post evaluation of Objectives 1 and 2 for the 2000-2006 period, i.e. a total of twelve interlinked and phased "work packages" to explore different aspects of the effectiveness and efficiency of the Cohesion Policy, continued to be carried out. In respect of the ex post evaluation of the ESF 2000-2006 programmes, a preparatory study geared to analyse the relevance and reliability of available information was finalised in the course of 2008. Building on this study, the main ex post evaluation and two ex post thematic evaluations were launched at the end of 2008.

Concerning the FIGG, the outsourcing of the ex post evaluations was launched at the end of 2008.

Furthermore, the ex post evaluations for Community initiatives URBAN and INTERREG were launched in 2008. The ex post evaluation of the EQUAL Community Initiative was launched in early 2009.

Another important task of the Commission is to provide methodological guidance to the Member States and organise exchange of experience in the field of evaluation. In this respect, the online and interactive resource for the evaluation of socio-economic development EVALSED is currently being updated.

#### **5. CONTROLS**

##### **5.1. ERDF**

For the 1994-1999 period, closure audits were carried out on a sample of 57 programmes (including one INTERREG programme, and 2 Objective 2 1994-1996 programmes) covering all EU 15. By the end of 2008, 40 out of the 55 procedures had been completed and financial corrections of an amount of approximately EUR

258 million have been applied. For the remaining 17 cases, a decision will be taken in 2009.

For the programmes adopted under the 2000-2006 period, in total 207 audit missions (excluding INTERREG) had been carried out examining the functioning of key elements of management and control systems in Member States, out of which 22 were performed in 2008. Additionally, 21 missions for the reviews of winding-up bodies were performed in relation to ERDF in order to verify the preparation of Member States for closure and to identify and mitigate related risks. As regards INTERREG, following the reservations made in AAR 2007 on 51 INTERREG III programmes, an intensive audit plan has been carried out, raising the number of audited programmes from eight at the end of 2007 to 23 at the end of 2008, corresponding to 54.1% coverage of the programmes' amount.

## **5.2. ESF**

For the 1994-1999 period, the closure audits were finalised with the audit of three projects in Germany (Brandenburg) and with the audit of the closure certificates in Belgium (Flanders). As a result, the objectives – coverage of all Member States and a reasonable amount of programmes - concerning the closure audits 1994-1999 were accomplished.

For the 2000-2006 period, 113 missions were organised involving the audit of (a) the audit of uncovered (in part or in full) operational programmes identified in the risk analysis for 2007, (b) follow-up missions on the implementation of action plans agreed in the framework of suspension procedures or, on the results of audits undertaken by the Court of Auditors of the European Union and (c) the audit of a sample of operations. In addition, five missions in preparation of the closure 2000-2006, 76 audits on substantive testing of operations (sample checks including desk review and visits on the spot) and 18 follow-up missions were carried out in 2008.

## **5.3. EAGGF**

As regards the 1994-1999 period, the ex-post audit programme was already completed in 2006. A number of financial correction procedures are under way. Three financial correction decisions covering fifteen programmes were adopted by the Commission during the year.

For the period 2000-2006 (EU-25), 26 programmes covering 45.3% of planned expenditure were audited during 2008. Since the year 2000, a total of 92 programmes out of the 152 approved EAGGF-Guidance programmes had been subject to an audit. The programmes audited cover 94.3% of the planned EAGGF contribution and 60.6% of the number of programmes. Three financial correction decisions covering three programmes were adopted by the Commission during the year representing an amount of €18.8 million in recoveries.

## **5.4. FIG**

As regards the 1994-1999 period, by the end of 2008, fifty out of fifty-two programmes were closed, two are in the process of being closed by a financial

correction decision (adopted beginning 2009). The percentage of programmes closed, or in the process of being closed, represents 94.2% of the total.

As far as the 2000-2006 period is concerned, the eight FIG audits carried out in 2008, covering nine operational programmes, focused on the verification and follow-up of the effective functioning of management and control systems and the preparation for the closure of the programmes. DG MARE has carried out a total of 44 audit missions covering all its 18 mono-fund programmes as well as 14 multi-fund programmes representing a contribution of EUR 286.94 million (6.92% of total 2000-2006 initial budget). In total, DG MARE systems audits have covered programmes representing 94% of total FIG initial contribution for 2000-2006. The financial corrections applied in 2008 represented €1.65 million in recoveries.

### **Lessons learnt from controls**

The risk remains that some management and control systems for the Structural Funds programmes are still affected by material weaknesses in certain Member States. However, where identified deficiencies in the systems remain, the Commission is in the process of concluding the follow-up of remedial action plans or has launched suspension and/or financial correction procedures which will be finalised in 2009.

## **5.5. OLAF**

During 2008, OLAF undertook 41 missions in the Member States relating to measures co-financed by the Structural Funds. Some 23 of these missions concerned on-the-spot checks<sup>3</sup> (during which 31 on the spot controls were carried out on economic operators) and 18 other types of missions were carried out to gather information or to assist either national administrations or judicial authorities.

In 2008, Member States communicated to the Commission, in accordance with Regulation (EC) N° 1681/94<sup>4</sup> and Regulation (EC) N° 1828/2006<sup>5</sup>, some 3 869<sup>6</sup> notifications of irregularities involving EUR 528 647 682 affecting co-financed measures of the 1994-99, 2000-2006 and 2007-2013 programming periods. 62 notifications concern the 1994-99 programming period with a financial impact of approximately EUR 11 million. Member States have informed the Commission that administrative and/or judicial procedures have been concluded at national level for a number of cases and an amount of EUR 109 811 425 has been recovered.

## **6. COMMITTEES ASSISTING THE COMMISSION**

### **6.1. Coordination Committee of the Funds (COCOF)**

In 2008, the main topics discussed by Coordination Committee of the Funds (COCOF) were the financing of the programme for the use of operational and

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<sup>3</sup> Regulation (EC) N° 2185/1996, OJ L 292, 15.10.1996, p. 2

<sup>4</sup> OJ L 178, 12.07.1994, p.43

<sup>5</sup> OJ L 371, 27.12.2006, p.1

<sup>6</sup> 2007: number of communicated cases 3 671; overall amount related to the communications € 694 362 858.

non-operational technical assistance, the closure of INTERREG III programmes 2000-2006, financial engineering, major projects, revenue-generating projects, eligibility of energy efficiency and renewable energies interventions, and good practices in relation to management verifications to be carried out by Member States.

## **6.2. ESF Committee**

In 2008, the ESF Committee (pursuant to Article 147 of the Treaty) discussed the Lisbon package, the renewed social agenda and adopted an opinion on the EU budget review with a particular focus on the aim to achieve full employment, quality of work and social cohesion and on the development of the European labour market and human capital formation. The ESF Committee was also consulted on the "Green Paper on Territorial Cohesion" and on the Commission's proposal which aimed at maximising the contribution of Structural Funds, in particular the ESF, to address the crisis in the framework of the European Economic Recovery Plan. The ESF Technical Working Group pursued its programme of mutual learning concerning the use of public tendering for ESF operations, the closure of 2000-2006 programmes, and examples of ESF human resources development programmes.

## **6.3. Committee on Agricultural Structures and Rural Development (STAR)**

The STAR Committee met seven times in 2008 and gave a favourable opinion on three amendments of the SAPARD rural development programmes for Bulgaria (2 amendments) and Croatia under Article 4 of Council Regulation (EC) No 1268/1999.

## **6.4. Committee on Structures for Fisheries and Aquaculture (CSFA)**

In 2008, the Committee was consulted on a number of issues, including the European Transparency Initiative and the guidelines for determining financial corrections to be made to expenditure co-financed by the Structural Funds or the Cohesion Fund for non-compliance with the rules on public procurement.