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REPORT FROM THE COMMISSION
19TH ANNUAL REPORT ON IMPLEMENTATION OF
THE STRUCTURAL FUNDS (2007)

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TABLE OF CONTENTS

1.	Introduction.....	3
2.	Analysis of Implementation.....	4
3.	Consistency and Coordination.....	8
4.	Evaluations.....	9
5.	Controls.....	10
6.	Committees Assisting the Commission.....	12

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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 2007.

More detailed information is available in the Commission staff working paper (annexed to this report).

1. INTRODUCTION

2007 was the eighth year of implementation linked to the 2000-2006 programming period in which the sound and efficient management of Structural Funds programmes and projects continued. Altogether 659 programmes were managed in 2007.¹

Significant efforts continued to be made in order to raise the quality of programmes and projects co-financed by the Structural Funds. The reinforcement of financial management, control and evaluation also contributed to the promotion of good governance of the co-funded programmes and projects. The partnership model set up between the Commission and the national and regional authorities in the Member States for the implementation of the programmes has become an outstanding success.

Member States and regions with programmes of high execution rates could start their preparation for the closure of assistance. The general framework for the closure of Structural Funds 2000-2006 assistance was laid down by the adoption of the Commission Decision C(2006) 3424 in 2006.

In addition to the implementation of 2000-2006 Structural Funds programmes and projects as well as the preparation for their closure, Commission services were heavily involved in the planning and programming of the 2007-2013 period during 2007. Negotiations were concluded on a total of 27 national strategic reference frameworks and 428 programmes (311 ERDF, 117 ESF) during the year².

In order to be able to demonstrate the added value of European Cohesion policy, the ex post evaluation of Objectives 1 and 2 2000-2006 programmes was launched during 2007. Preparatory work was also undertaken on designing the ex post evaluations of INTERREG and URBAN.

¹ 226 Objective 1 and Objective 2, 47 Objective 3, 12 FIFG (outside Objective 1), 81 INTERREG, 71 URBAN, 27 EQUAL, 73 LEADER+ and 122 Innovative Actions programmes.

² See Communication on the results of negotiations on strategies and programmes for the programming period 2007-2013

Under the "*Regions for Economic Change*" Initiative, the Commission has been active in reinforcing the identification of good practice projects in different fields of economic modernisation through network activities and encouraging dissemination to the mainstream operational programmes.

In October 2007, the Commission organised jointly with the Committee of the Regions, the OPEN DAYS "European week of regions and cities". The event, with the headline "*Making it happen: regions deliver growth and jobs*", was attended by more than 5500 participants from 34 countries and 212 regions. .

On 28-29 June 2007, Potsdam hosted the conference '50th Anniversary of the European Social Fund – Review and Prospects'. This was the official 50th anniversary event for the European Social Fund.

2. ANALYSIS OF IMPLEMENTATION

2.1. Budget Implementation

2.1.1. ERDF

In terms of budgetary execution, 2007 was an exceptional year. The overall execution rate of ERDF payment appropriations reached 99.9 %, while the level of payment appropriations was higher than ever, at 17.4 billion for 2000-2006 programmes. For Objectives 1 and 2 and the Community Initiatives, full implementation of payment appropriations has been reached. Moreover, Objective 1 programmes have shown a higher demand for reimbursements than initially forecast thus offsetting advance payments to the new programmes whose adoption took place late in December 2007 or was postponed to 2008.

At the end of 2007, commitments from previous years on which payments were still to be made (RAL) totalled EUR 27.7 billion compared with EUR 45.8 billion in 2006.

In 2007 again, the automatic decommitment ("n+2") rule proved to be an efficient tool to stimulate Member States to devote resources and efforts to the timely execution of European programmes. The latest forecasts demonstrate that the risk of possible decommitments should not exceed 0.7 % of 2005 commitments (around EUR 140 million).

In 2007, the ERDF absorption rate for all Member States reached 79 % of the overall 2000-2006 financial allocation. New Member States achieved record absorption figures, receiving in 2007 EUR 3 billion, nearly as much as they were reimbursed altogether in 2004, 2005 and 2006 (EUR 3.5 billion). By end of 2007, they had reached an average consumption of 71 % of their financial allocations for the period 2004-2006, whereas the average ERDF absorption rate for EU15 (period 2000-2006) was at 85 %.

2.1.2. ESF

The overall execution rate of ESF payment appropriations reached 99.9 %, while the level of payment appropriations was higher than last year.

ESF total commitments related to 2007-13 operational programmes amounted to EUR 10.486 billion (99.88 %). The remaining credits (EUR 13 163 237) not committed in 2007 correspond to the French OP "Martinique Region" which was not expected to be adopted in 2007. The cumulative payment credits consumption reached EUR 1 513 million which corresponds to 99.87% of the annual payment credits (EUR 1 515 million). The difference (EUR 1 957 184.6) corresponds to the advance payment for the French OP "Martinique Region" and will be paid in 2008.

Concerning the application of the "n+2" rule, at the end of 2007, twelve programmes were involved and EUR 92.2 million were concerned. The risk of possible decommitments should not exceed 0.8 % of 2005 commitments.

The total outstanding payments on pre-2007 commitments at the end of 2007 stood at EUR 12 billion. The RAL from the pre-2000 period now amounts to EUR 179 million (compared with EUR 204.6 million at the end of 2006).

2.1.3. *EAGGF*

The total amount paid in 2007 was EUR 3.4 billion. The financial execution rate of the EAGGF payment appropriations for rural development programmes for the period 2000-2006 was fully achieved at 100 %.

As rural development operational programmes are not part of the Structural Funds in the new programming period 2007-2013, there is a slight decrease in the overall amount paid in 2007 compared with the previous year (i.e. EUR 3.6 billion). In order to realise full financial execution, some internal transfers were made, mostly from the new European Agricultural Fund for Rural Development (EAFRD). In 2007, there are no commitments for rural development programmes related to the 2000-2006 period.

At the end of 2007, commitments from previous years on which payments were still to be made (RAL) totalled EUR 3.9 billion, compared with EUR 7.3 billion in 2006.

As regards the "n+2" rule (applying at the end of 2007 to commitments made in 2005 or before) first estimates show that the risk of possible decommitments concerning rural development funds is around EUR 70 million.

2.1.4. *FIFG*

The budgetary implementation in 2007 was highly satisfactory. 97.5% of payment appropriations were executed. The payment rate reached 96.44% in Objective 1 regions and 99.96% in regions outside Objective 1.

The total RAL for the FIFG at the end of the year 2007 reached EUR 811 million (compared to EUR 1 336 million in 2006).

As regards the implementation of the "n+2 rule", the estimates of decommitments are around EUR 54 million for 2007.

2.2. Programme Implementation

2.2.1. Objective 1

Objective 1 programmes focused their investments on basic infrastructure projects (41.4%), with over half of all investment in this category spent on transport infrastructure (53%). More than one third (33.5%) of the Objective 1 resources were invested in productive environment, where the focus continues to be on assisting SMEs and craft sector (28.6%). The projects aimed at human resources represent 23.2% of resources in Objective 1 regions. Main interventions in this field are almost equally labour market policies (31.3%) and education and vocational training (31%).

2.2.2. Objective 2

In Objective 2 regions, main focus of programmes continues to be on productive environment with over half of all financial resources devoted to this category (55.8%). Within this field, assistance to SMEs and craft sector is the most dominant intervention (56.6%). The second most important field of intervention is basic infrastructure with 39.6% 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 human resources (10.1% of all investment in Objective 2 regions), workforce flexibility, entrepreneurial activity, innovation, information and communication technologies are the main fields of investment (30.8%).

2.2.3. Objective 3

The main emphasis of ESF programme implementation in 2007 continued to be support for the European Employment Strategy, particularly those measures aimed at improving employability in the labour market (32%), lifelong learning (27%) and equal opportunities (6%). Furthermore, there was still a marked difference 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

The implementation of the structural policy in the fisheries sector improved in year 2007. This was reflected in the financial implementation of the FIFG operational programmes, which contributed to the achievements of the objectives of the Common Fisheries Policy.

2.2.5. Community initiatives

2.2.5.1. INTERREG

By the end of 2007, 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 2007, implementation continued to progress well with a payment execution rate of 68%. 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.

2.2.5.2. EQUAL

In 2007, good progress continued to be made with the implementation of the 27 programmes and more than 3 300 projects under EQUAL. As regards financial implementation, six Member States were not able to use part (between 8% and 49%) of their 2005 budgetary commitment ("n+2" rule).

In order to make maximum use of the results of the EQUAL programmes and projects by informing policy and practice, including the shape of the national and regional ESF programmes for the programming period 2007-2013, the Commission in partnership with the Member States continued the work launched in 2006. This work covered relevant policy issues such as asylum seekers, diversity and empowerment, youth employment, the (re)-integration of ex-offenders, social economy, inclusive business creation, media and diversity, together with management principles (partnership, transnational cooperation, innovation and gender mainstreaming).

2.2.5.3. URBAN

In 2007, the management of the 71 operational programmes implementing URBAN Community Initiative continued through the analysis of annual reports, monitoring committees and annual meetings. An active follow-up of the programme URBACT I was ensured, including the launch of two Fast Track pilot networks. The URBACT II programme, one of the main instruments for implementing the Regions for Economic Change initiative, was approved and launched. URBACT has developed 20 networks and 6 thematic working groups, as well as working groups bringing together several networks around a particular theme.

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 were 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.

2.2.6. *Innovative actions*

2.2.6.1. ERDF

DG Regional Policy also managed 122 Regional Programmes of Innovative Actions (out of which 26 were closed in 2007) which contribute to the promotion of innovation at a strategic level 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 2007, the six remaining projects relating to the call for proposals "Local Employment Strategies and Innovation" were closed. DG EMPL also managed 80 transnational projects selected under the three rounds of the last call on "Innovative approaches to the management of change" (22 closed in 2007). Such projects support the development and testing of innovative actions to anticipate and manage change on two priority areas: management of restructuring and management of demographic change. In addition, thirteen projects (of which five were closed in 2007) are aimed at mainstreaming the results of previously selected projects under the call on "Transfer and dissemination of innovation from ESF Article 6 projects".

2.2.6.3. FIFG

DG Maritime Affairs and Fisheries managed 29 innovative action projects (out of which the last two were closed in 2007).

3. CONSISTENCY AND COORDINATION

3.1. Consistency with other Community policies

3.1.1. Competition

Following the provisions of the Regulation 1083/2006, the approach to the control of State aid issues in the new Structural Funds interventions is fundamentally different from the approach applied for the programming period 2000-2006. Under the new legislative framework, the full responsibility for the compliance of Structural Funds' operations with State aid rules lies with the Member State, and in particular, with the Managing Authorities. The new approach, however, in no way affects the possibility of Commission's actions including the examination of allegedly non-notified measure or the recovery of incompatible non-notified aid co-financed by the Structural Funds.

3.1.2. Internal market

Member States are also required to verify that operations financed by the Funds comply with EU Public Procurement Directives. Where the Commission is informed 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 law and the awarding of concessions has been introduced in order to provide greater legal certainty both for the private and 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 supporting 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, as well as by introducing environmental criteria into project selection, 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, the Funds have been used in TEN-T projects as well as projects supporting co-modality, energy efficiency in transport, intelligent transport systems, 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 was a horizontal issue discussed for all programmes in the new Cohesion Policy Period 2007-2013. A meeting of the High Level Group on Gender Mainstreaming in the Structural Funds in June 2007 underlined the importance of implying 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

In the framework of JASPERS (Joint Assistance in Supporting Projects in European Regions), action plans (work programmes) for 2007 were agreed with EU12 by the middle of the year.

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 2007, 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 2007, the Commission continued to carry out evaluations to support decision-making under Cohesion Policy and contributed to the quality of the programmes for the 2007-2013 period.

The evaluations completed in 2007 were an analysis of the impact of Cohesion Policy, a study on the development of evaluation capacity in the Member States and a study on the economic impact of convergence. The Commission also launched the ex post evaluation of Objectives 1 and 2 for the 2000-2006 period, a set of a total of twelve interlinked phased "work packages" to explore different aspects of the effectiveness and efficiency of Cohesion Policy. In respect of the ex post evaluation of the ESF 2000-2006 programmes, two preparatory studies to collect essential information were carefully planned in 2007.

For the assessment of the actual results and impacts of ESF interventions, new monitoring systems and evaluation arrangements have been set up at national level under the guidance of Commission services. The evaluation of the EQUAL Community Initiative continued throughout 2007 to identify successful innovative practices that can be mainstreamed into the ESF programmes.

5. CONTROLS

5.1. ERDF

For the 1994-1999 programming period, closure audits have been completed on a sample of 56 mainstream programmes and one INTERREG programme covering all EU15 Member States. Eighteen enquiries were closed and corrections amounting to EUR 23.9 million were applied (including a formal Commission decision of EUR 9.6 million).

For the 2000-2006 period, the audits comprise two phases: a systems review and the audit of a sample of projects selected on a representative basis. The on-the-spot audit work initially planned was concluded by end 2006 for EU15 and end 2007 for EU10. Additional audits on 25 programmes were carried out in 2007 to extend coverage or address specific risks where this need had been identified from audit results, or to follow up implementation of action plans. At the end of 2007, 214 audit missions (of which 13 INTERREG) had been carried out and 95 programmes with 61% of the planned ERDF contribution had been audited.

5.2. ESF

For the 1994-1999 programming period, seven programmes were closed in 2007, one of which was not corrected, and five which had a total correction of EUR 3.4 million (BE, ES, FR, IT, and UK). During the same period, four procedures amounting to EUR 13 million were initiated regarding three Member States (BE, DE, and UK).

For the 2000-2006 95 audit missions were organised involving the audit of both (a) unaudited (in part, or in full) operational programmes identified in the 2007 risk analysis, and (b) follow-up missions on the implementation of recommendations issued by the ESF audit unit, or on the results of audits undertaken by the ECA.

The process of substantive testing was conducted in 2007, covering 433 projects through desk reviews and 270 through on-the-spot visits. The cumulative coverage (in amounts) of the 2000-2006 programming period, including additional coverage by national audits, reached 98.9 %. Currently, the auditing of 520 projects in the course of 20 audits is planned for 2008.

5.3. EAGGF

As regards the 1994-1999 period, the ex-post audit programme was already completed in 2006. Four financial correction decisions covering twelve programmes were adopted by the Commission during the year.

For the period 2000-2006 (EU-25), 19 programmes covering 18% of planned expenditure were audited in 2007. By the end of the year, a total of 87 programmes out of the 152 approved EAGGF-Guidance programmes had been subject to an audit. The programmes audited cover 92% of the planned EAGGF contribution and 57% of the number of programmes. One financial correction decision covering one programme was adopted by the Commission during the year.

5.4. FIG

The ex-post control sector carried out a total of ten on-the-spot controls in the course of 2007 for the FIG. The ten FIG audits carried out in 2007, covering twelve operational programmes, focused on the verification and follow-up of the effective functioning of management and control systems for the period 2000-2006.

In total, DG MARE systems audits have covered 93.6% of total FIG contribution for 2000-2006. For the other programmes, the assurance is gained from other Structural Fund DG's audit work and/or national audits.

5.5. OLAF

During 2007, OLAF undertook 37 missions in the Member States relating to measures co-financed by the Structural Funds. Some 19 of these missions concerned on-the-spot checks³ (during which 26 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 2007, Member States communicated to the Commission, in accordance with Regulation (EC) No 1681/94⁴, some 3 740⁵ notifications of irregularities involving EUR 717 431 387 affecting co-financed measures of the 1994-99 and 2000-2006 programming periods. 124 notifications concern the 1994-99 programming period with a financial impact of approximately EUR 33 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 153 465 848 has been recovered.

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

⁴ OJ L 178, 12.07.1994, p. 43

⁵ 2006: number of communicated cases 2 988; overall amount related to the communications EUR 516 697 561

6. COMMITTEES ASSISTING THE COMMISSION

6.1. Coordination Committee of the Funds (COCOF)

A new Coordination Committee of the Funds (COCOF) was established to provide a forum to present and discuss the interpretative documents of the Commission with the objective of sharing the views with the Member States. In 2007, the main topics discussed were the eligible expenditures in the 2007-2013 period, the European Grouping of Territorial Co-operation, numerous guidance notes on the Audit Strategy and Compliance Assessment, and a study on regional expenditure of ERDF and Cohesion Fund.

6.2. ESF Committee

In the ESF Committee (Committee pursuant to Article 147 of the Treaty), the implementation of the ESF was discussed, and more specifically the visibility of the ESF, as well as the role of the ESF Committee and thematic evaluations 2000-2006 about restructuring management and administrative capacity building. The Technical Working Group was informed about the state of play of the adoptions of the Operational Programmes 2007-2013. It discussed amongst others audit and control issues, evaluation issues, the "n+2" rule and simplification aspects, including the flat rate rule regarding declaration of indirect costs and public tendering.

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

The STAR Committee gave a favourable opinion on the amendment of one rural development programme (the SAPARD programme for CROATIA) under Article 4 of Council Regulation (EC) N°1268/1999.

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

In 2007, the Committee was consulted on a number of issues: the Draft Commission Regulation amending Commission Regulation (EEC) No 3440/84 as regards conditions for certain trawls for vessels operating pump aboard systems; the draft Commission Decision on a Community financial contribution towards Member States' fisheries control, inspection and surveillance programmes for 2007 (second instalment); the draft Commission regulation laying down detailed rules for the implementation of Council Regulation (EC) No 1966/2006 of 21 December 2006 on electronic recording and reporting of fishing activities and on means of remote sensing; the draft Commission regulation on landing and weighing procedures for herring, mackerel and horse mackerel; the Commission Decision designating the Community Fisheries Control Agency.