



EUROPEAN COMMISSION

Brussels, 31.10.2011
COM(2011) 693 final

REPORT FROM THE COMMISSION
22ND ANNUAL REPORT ON IMPLEMENTATION OF
THE STRUCTURAL FUNDS (2010)

{SEC(2011) 1308 final}

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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 2010.

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

1. INTRODUCTION

2010 was the eleventh year in which Structural Funds programmes and projects for the 2000-2006 programming period were implemented. Altogether 718¹ operational programmes were managed in 2010.

In 2010, the closure process began for the majority of the 2000-2006 operational programmes. Most of the related closure documents were submitted by Member States in September 2010. The general framework for the closure of 2000-2006 Structural Funds assistance was set out in Commission Decision C(2006)3424 in 2006, amended by Commission Decisions C(2008)1362 and C(2009)960.

The recovery package proposed by the Commission in response to the financial crisis allowed for an extension of six (or twelve) months to be granted on a programme-by-programme basis for those Member States which opted for it. This flexibility allowed Member States and regions to maximise the absorption of the allocated funds by addressing unexpected programme implementation challenges and, consequently, achieve the objectives of the programmes.

In addition to the implementation of 2000-2006 Structural Funds programmes and projects and preparation for their closure, the Commission was also heavily involved in the implementation of 434 programmes (317 European Regional Development Fund (ERDF), 117 European Social Fund (ESF))² of the 2007-2013 period in 2010.

In order to be able to demonstrate the added value of European cohesion policy, the Commission continued to carry out the ex post evaluation of Objectives 1 and 2 for the 2000-2006 period. The synthesis report of the ex post evaluation was published in April 2010³. Furthermore, the ex post evaluations for Community initiatives

¹ 226 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.

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

³ published on: http://ec.europa.eu/regional_policy/sources/docgener/evaluation/expost_reaction_en.htm

URBAN⁴ and INTERREG⁵, launched in 2008, were published in June 2010. The ex post evaluation of the EQUAL Community Initiative was launched in early 2009 and its preliminary results presented in early 2010. Concerning the Financial Instrument for Fisheries Guidance (FIG), the ex post evaluation was undertaken in 2009 and was presented in May 2010⁶. In December 2010, the Commission also presented the ex post evaluation of Leader+⁷, while the evaluation of the European Agricultural Guidance and Guarantee Fund (EAGGF) Guidance Section is on going.

Sharing of experience was promoted, notably through interregional and urban networks and the conference "Regions for Economic Change: building sustainable growth" on 20th and 21st May with 755 participants from all 27 countries.

The 8th edition of OPEN DAYS 'European week of regions and cities' organised jointly by the Commission and the Committee of Regions took place on 4-7 October 2010. It brought together 5,900 local, regional, national and European decision-makers and experts in the field of regional and local development. In addition to this 263 local events were organised in 33 countries. The event is an arena for cooperation and networking, for sharing knowledge and experience, and offers regions and cities a possibility to showcase their achievements. It also offers the ideal opportunity to highlight the synergies between cohesion policy and other EU policies.

The Belgian presidency organised a two-day conference (18 and 19 November 2010) on "The role of the ESF in the fight against poverty and social exclusion". Work sessions were organised over two half days with focus on the role of the ESF as a policy instrument in the fight against poverty and social exclusion.

2. ANALYSIS OF IMPLEMENTATION

2.1. Budget Implementation

2.1.1. ERDF

In spite of the financial downturn, 2010 was an excellent year in terms of budgetary execution. The overall absorption rate reached 100.0% or EUR 1,693 million reimbursed to operational programmes. While the execution under Objective 2 was higher than initially voted (EUR 230 million instead of EUR 104 million), payments to Objective 1 and INTERREG programmes were lower than originally foreseen (for Objective 1, EUR 1,348 million instead of EUR 2,077 million and for INTERREG EUR 90 million instead of EUR 202 million), mainly due to a transfer of appropriations during the global transfer to reinforce the 2007-2013 appropriations. In total for other programmes (Urban, Innovative actions), EUR 25 millions were paid.

⁴ Published on
http://ec.europa.eu/regional_policy/sources/docgener/evaluation/expost2006/urban_ii_en.htm

⁵ Published on:
http://ec.europa.eu/regional_policy/sources/docgener/evaluation/expost2006/interreg_en.htm

⁶ Published on: http://ec.europa.eu/fisheries/documentation/studies/fifg_evaluation/index_en.htm

⁷ Published on: http://ec.europa.eu/agriculture/eval/reports/leaderplus-expost/index_en.htm

In 2010, the closure process began for the majority of the 2000-2006 ERDF operational programmes. Out of 379 programmes, 281 (or 74%) representing 90% of ERDF funds have chosen to extend their eligibility dates. As at 31 December 2010, closures documents were received for 356 programmes. The responsible units are currently analysing the Winding-up Declarations and Final reports.

A proposal for closure had been sent to Member States for 25 programmes while the remaining 354 will be closed during 2011 and 2012.

For the entire 2000-2006 period, EUR 123,339 million have been paid to Member States as of 31 December 2010. This represents an average absorption rate for all Member States of 95.2% of the EUR 129,600 million overall allocation. Most of the remaining payments concern payments of the final balances for the closure of programmes.

At the end of 2010, commitments from previous years on which payments were still to be made (RAL) amounted to EUR 6,719 million for ERDF compared with EUR 8,400 million at end of 2009. This represents 5.2% of the total amount committed for ERDF. A further decrease of the RAL is foreseen with the payment of final balances upon closure of the programmes.

In 2010, as in the previous year, the so-called 'n+2' rule did not apply. As a general rule, the last commitment tranche (i.e. 2006) will be used to execute final payments once the closure of the programme is agreed between the Member State and the Commission. Accordingly, the amount to be de-committed will only be calculated at the closure stage of the operational programmes⁸.

2.1.2. *ESF*

For the 2000-2006 programming period, the payment credits consumption during 2010 reached EUR 319 million. This corresponds to 26.42 % of the annual payment credits allocation.

This is due to the fact most of the programmes have reached the 95% threshold and the remaining balance will only be paid in the context of closure of the programmes which is currently on-going.

The total outstanding commitments (RAL) at the end of 2010 stood at EUR 3,004 million (compared to EUR 4,700 million in 2009). This represents 4.38% of total commitments for the period 2000-2006. The RAL has been consumed by interim payments, a few final payments and an automatic de-commitment of the unused RAL has been processed for an amount of EUR 1,460 million under the closure exercise.

In 2010, as in the previous year, the so-called 'n+2' rule did not apply and the concerned RAL has been decreased by de-commitments for the programming period 2000-2006 at the closure of the operational programmes according to the provisions set in the Article 105(3) of Regulation (EC) No 1083/2006.

⁸ Article 105(3) of Regulation (EC) No 1083/2006.

For the whole period, at the end of 2010 EUR 64,118 million have been paid to Member States. This represents an absorption rate for all Member States of 93.47% of the EUR 68,600 million overall allocation.

In total for 229 programmes under closure in 2010, all closure documents have been submitted in the required deadline and 10 of the programmes have already been closed.

2.1.3. *EAGGF*

The total amount paid in 2010 was EUR 168.3 million or 30.7% of the budget available at the end of the year (an amount of EUR 13.9 million was transferred during the year to other budget lines outside the EAGGF). The execution rate as regards the initial budget for payment appropriations would be 29.9%.

In absolute terms, the amount paid in 2010 is far below the amount paid in 2009 (by EUR 300 million). Three main reasons are behind this reduction:

- The rural development programmes financed by EAGGF-Guidance have followed a very high rhythm of implementation in previous years. At the end of 2009, 94% of the EAGGF-Guidance contribution programmed for the whole period had already been paid, and a substantial number of programmes (112 out of a total of 152), had already reached the 95% ceiling for interim payments. In these cases, no further payments were possible in 2010 until closure.
- In 2010 the closure of 2000 – 2006 EAGGF-Guidance programmes started and by the end of the year 19 programmes (out of a total of 152 programmes), were closed.
- The low EAGGF-Guidance expenditure in 2010 was very largely compensated by EUR 11.12 billion of EAFRD expenditure under the rural development programming 2007-2013 (which is EUR 2.91 billion more than in the year 2009).

The EAGGF-Guidance outstanding commitments (RAL) at the end of 2010 amounted to EUR 1,183.3 million, equivalent to 5.3% of the whole allocation 2000-2006. This amount is EUR 171.3 million lower than the EUR 1,354.6 million RAL at the end of 2009.

2.1.4. *FIFG*

The overall absorption rate for payments was 100%, with EUR 10 million being disbursed to Member States.

Concerning the execution level of payment appropriations, EUR 10 million was paid under Objective 1. No payment was made outside Objective 1.

The total RAL for the FIFG at the end of 2010 reached EUR 296.44 million (compared with EUR 306.41 million in 2009). This represents 7.5% of total commitments for the period 2000-2006.

For the whole period, as at the end of 2010, EUR 3,639 million have been paid to Member States. This represents an absorption rate for all Member States of 92.5% of the EUR 3,935 million overall allocation.

2.2. Programme Implementation

2.2.1. Objective 1

Objective 1 programmes focused on basic infrastructure projects (40.2%), with almost half of all investment in this category spent on transport infrastructure (49.9%). More than a third (34.9%) of Objective 1 resources was invested in the productive environment where the focus continues to be on assisting Small and Medium-sized Enterprises (SME) and the craft sector (26.6%) where as human resources supported projects account for 22.5% of resources.

2.2.2. Objective 2

The main focus of programmes in Objective 2 regions continues to be on the productive investments, with over half of all financial resources devoted to this category (55.4%) mostly targeting the SME and craft sector. The second most supported field is basic infrastructure, with 29.2% of all Objective 2 resources. In the category of human resources to which 10.5% of resources were devoted, workforce flexibility and entrepreneurial activity, innovation, information and communication technologies are the main fields of investment.

2.2.3. Objective 3

ESF programme implementation in 2010 continued to be focused on the European Employment Strategy, particularly on the measures aimed at improving employability in the labour market (30.9 % of certified expenditure), lifelong learning (activities developing educational and vocational training represented 31.2 % of certified expenditure), social inclusion (13.3 % of certified expenditure), equal opportunities (5.2 % of certified expenditure) and entrepreneurial activities, workforce flexibility, innovation, information and communication technologies (19.05%).

2.2.4. Fisheries outside Objective 1

Expenditure of the FIFG programmes outside Objective 1 focussed on processing, marketing and promoting of fisheries products (26.7%). The second most important measure was adjustment of the fishing effort (17.8%), followed by the renewal and modernisation of the fishing fleet (17.5%), fishing port facilities (16.9%) and actions by professionals (vocational training, small coastal fishing) (12.8%).

2.2.5. Community initiatives

2.2.5.1. INTERREG

By the end of 2010 the 81 INTERREG III/Neighbourhood programmes had selected about 19,000 projects and networks aimed 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 EU and

better integration with its neighbours. Effectiveness of regional development policies and instruments was also supported by sharing of good practice and exchange of experience.

By the end of 2010, the payment absorption rate was about 92%. Due to the more specific and challenging nature of cooperation programmes, project de-commitments due to the 'n+2' rule could not be avoided for some programmes. In total EUR 135 millions were de-committed during the programming period due to the automatic de-commitment rule.

In 2010, the closure process for 81 INTERREG III/Neighbourhood programmes has begun and for 3 programmes the closure has been finalised.

2.2.5.2. EQUAL

The EQUAL Community Initiative programmes were administratively closed in 2008 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. In 2010 the administrative closure process was continued and by the end of the year 4 closures of EQUAL Operational programmes were completed.

2.2.5.3. URBAN

In 2010, URBACT I programme has been closed. The URBACT Programme reported a total eligible cost of EUR 25 043 714 of which a total of EUR 15 386 591 ERDF was claimed. This represents an ERDF under-spend of EUR 2 644 526 or 14.67%.

The URBACT II programme, the Urban Development Network Programme under the European Territorial Cooperation Objective, is an exchange and learning programme for cities based on the good experiences with the URBACT I programme. In 2010, work on the management of the URBACT II programme continued by way of monitoring committees and reporting procedures.

2.2.5.4. LEADER+

The Community Initiative Leader+ consisted of three activities: 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. EU Member States which joined after 01 May 2004 had the option of integrating Leader+ type measures into their EAGGF Objective 1 programmes.

By the end of 2010, 14 LEADER+ programmes were closed and 8 pre-closure letters had been sent to Member States.

2.2.6. *Innovative actions*

2.2.6.1. ERDF

The Directorate-General for Regional Policy also managed 181 Regional Programmes of Innovative Actions (by 31 December 2010, 171 had been closed, 24 of them during 2010) which contribute to the promotion of 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

The remaining Innovative Actions for 2005 and 2006 projects were completed as planned and closed in 2010.

3. **CONSISTENCY AND COORDINATION**

3.1. **Consistency with other Community policies**

The previous reports have detailed relevant developments in relation to ensuring consistency between cohesion policy and other EU policy priorities such as competition policy, internal market, environment, transport and gender equality objectives. There were no specific changes in requirements or expectations on managing authorities as the 2000-2006 programmes entered the closure phase.

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 thirteen Member States also benefited from the Cohesion Fund which supports the less prosperous countries. The programming and implementation of the Structural Funds have been carefully co-ordinated, also 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*

Throughout the 2000-2006 period the Commission and the EIB and EIF reinforced their cooperation by setting up the three initiatives JASPERS, JEREMIE and JESSICA. Details of this cooperation were provided in previous reports. Since the implementation of the 2000-2006 period entered the closure phase in 2010, there is nothing to report.

4. **EVALUATIONS**

In 2010, the Commission continued to carry out evaluations to support decision-making under Cohesion Policy.

ERDF

In 2010, the Commission completed the ex post evaluation of ERDF interventions in objective 1 and 2 regions. The synthesis report of all the done work was published and presented to the public in April 2010. The ex-post evaluations of the Community Initiatives URBAN and INTERREG were also completed in 2010.

Furthermore, in 2010 the Commission launched evaluations on the Cohesion Policy support to enterprises and to innovation and research. In addition three thematic studies concerning Cohesion Policy and local development, regions with specific geographical characteristics and innovation activities have also been launched.

ESF

The *ex-post* evaluation of the ESF interventions for the 2000-2006 period was completed in 2010. It consists of 1 preparatory study, 2 thematic studies (- ESF support to the Open Method of Coordination in social protection and social inclusion and - The impact of the ESF on the functioning of the labour market and investment in human capital infrastructure through support to systems and structures), and 2 main evaluations on the ESF and EQUAL. All the evaluation reports have been published.

Another 5 evaluations and studies have been completed in 2010 while a further 3 have been launched within the year.

EAGGF

The ex post evaluation of Leader+ was completed in 2010. This evaluation covers the Leader+ programmes, as specified by Council Regulation (EC) No 1260/99, and the Leader+-type measures included in transitional rural development programmes for the period 2004-2006 (EU-10). The evaluation concluded that Leader+ was an important complement to mainstream policies and has contributed to economic diversification, quality of life and enhancement of the natural and built environment of rural areas.

In 2010 the Commission launched the ex-post evaluation of 2000-2006 rural development programmes. The evaluation will assess the relevance, coherence, effectiveness and efficiency of the different measures and programmes. It will be completed during 2011.

5. CONTROLS

Detailed information on the results of the controls is available in the Annual Activity Reports of the respective Directorates-General⁹.

5.1. ERDF

The effective functioning of the Member States' management and control systems has been the subject of wide-ranging audits since 2004 covering key elements of

⁹ Published at http://ec.europa.eu/atwork/synthesis/aar/index_en.htm

management and control. In terms of coverage, the programmes audited represent 43% of the number of the mainstream programmes and 76% of the decided ERDF contribution. As regards INTERREG, a separate audit enquiry launched in 2006 was concluded in 2010 for the 23 programmes examined (28% of total programmes) representing 54 % of the decided contribution.

An extensive preparatory enquiry was carried out from 2007 to 2010 to review the winding-up bodies (WUB) in order to verify the assurance which can be placed on their closure work underpinning the winding-up declarations (WUD), to verify the preparation of Member States for closure and to identify and mitigate related risks. The 42 audits carried out under this enquiry, together with audit missions done on the winding-up body as part of regular systems audits which started in 2004, resulted in a coverage of winding-up bodies in charge of approximately 85% of the decided amount of the 2000-2006 programmes.

In addition, during 2010, four audit missions were carried out to follow up previous ERDF systems audits (mainly implementation of remedial action plans following the detection of systems deficiencies) in three countries: in Spain (1), Germany (1) and Italy (2).

Other audit work carried out in 2010 for the 2000-2006 programming period included the examination of the 86 systems audit reports received from national auditors, eleven annual control reports received under Article 13 of Regulation No. 438/2001 (2009 was the last year where submission of annual control report summarising all audit work carried out in the year was obligatory, before submission of the closure documents by Member States for most programmes in 2010). Assessment letters were sent to all the Member States with observations and, where necessary, requests for additional information in order to be able to draw as much assurance as possible from the results of national audit work.

5.2. ESF

During the 2000-06 programming period, the work carried out by the audit directorate included the assessment of management and control system descriptions, analysis of national system audit reports and annual control reports in the context of annual bilateral coordination meetings, and three main audit enquiries.

Considering the stage of implementation of the 2000-2006 programming period's Operational Programmes, no further audits of management and control systems were organised in 2010. Instead, the audit work focused on the follow up of irregularities and the reservations issued in the Annual Activity Report for 2009 and on the analysis of the Winding up declarations.

5.3. EAGGF

In total, at the end of 2010, 103 programmes out of the 152 were subject to audit (67.8%), covering €21.7 billion (96.4%) of total commitment appropriations. The total number of programmes which were subject to a follow-up audit was 44. During 2010 all those audits were closed.

By 31 December 2010, the examination of the winding-up declarations submitted by Member States was finalized as regards 78 programmes, representing 51.3% of the total number of programmes.

5.4. FIFG

Since the beginning of the 2000-2006 programming period, DG MARE has carried out a total of 58 audit missions covering all its mono-fund programmes (18 programmes representing an initial budget contribution of €3,608.73 million – 87.4% of the total 2000-2006 budget) as well as 18 multi-fund programmes representing a contribution of €374.58 million - 9.2% of total 2000-2006 initial budget. In total, DG MARE systems audits have covered programmes representing 96.6% of the total FIFG initial contribution for 2000-2006. For the remaining programmes, the assurance is gained from other Structural Funds DGs' audit work and/or national audits.

By the end of 2010, 17 Winding-up declarations had been analysed: 9 had been accepted, for 8 the analysis was interrupted and additional information was requested and for the remaining 43 the analysis was ongoing. From the 9 which have been accepted, the opinion for 8 was unqualified and for one the opinion was qualified (and for which a financial correction will be proposed).

5.5. OLAF

In 2010, OLAF undertook 53 missions in the Member States relating to measures co-financed by the Structural Funds. During these missions on-the-spot checks¹⁰ were carried out on 52 economic operators and 6 other types of missions were carried out to gather information or to assist either national administrations or judicial authorities. As was the case in previous years, typical problems identified by OLAF in the course of 2010 included false declarations, false invoicing and failure to abide by public procurement rules as well as specified instances of conflict of interest in certain tendering procedures.

In 2010, Member States communicated to the Commission, in accordance with Regulation (EC) N° 1681/94¹¹ as amended¹² and Regulation (EC) N° 1828/2006¹³ as amended¹⁴, some 6,910¹⁵ notifications of irregularities involving EUR 1,546 billion affecting co-financed measures of the 1994-99, 2000-2006 and 2007-2013 programming periods.

¹⁰ Regulation (EC) N° 2185/1996, OJ L 292, 15.10.1996, p. 2

¹¹ OJ L 178, 12.07.1994, p.43

¹² Regulation (EC) N°2035/2005, JO L 328, 15.12.2005, p; 8

¹³ OJ L 371, 27.12.2006, p,1

¹⁴ Regulation (EC) N° 846/2009, JO L 250, 23.09.2009, p.1

¹⁵ 2009: number of communicated cases 4.858; overall amount related to the communications € 1.161.865.730

6. COMMITTEES ASSISTING THE COMMISSION

6.1. Coordination Committee of the Funds (COCOF)

The only COCOF activity in 2010 concerning the implementation of the 2000 -2006 period was the consideration of two Commission Decisions:

- Draft DECISION of the Commission exempting certain cases of irregularity arising from operations co-financed by the Structural Funds and the Cohesion Fund for the 2000-2006 programming period from the special reporting requirements laid down by Article 5(2) of Regulation (EC) No 1681/94 and by Article 5(2) of Regulation (EC) No 1831/94, and
- Draft DECISION of the Commission concerning the financial consequences for the Union budget exempting certain cases of irregularity arising from operations co-financed by the Structural Funds and the Cohesion Fund for the 2000-2006 programming period from the special reporting requirements laid down by Article 5(2) of Regulation (EC) No 1681/94 and by Article 5(2) of Regulation (EC) No 1831/94.

The Committee gave favourable opinion for both proposals.

6.2. ESF Committee

In 2010 there were three Plenary Sessions and six Technical Working Group meetings but however, they did not deal with any issues relating to the implementation of the 2000-2006 period.

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

The STAR Committee met six times in 2010 and gave one favourable opinion on two decisions:

- Draft DECISION of the Commission exempting certain cases of irregularity arising from operations co-financed by the Structural Funds and the Cohesion Fund for the 2000-2006 programming period from the special reporting requirements laid down by Article 5(2) of Regulation (EC) No 1681/94 and by Article 5(2) of Regulation (EC) No 1831/94, and
- Draft DECISION of the Commission concerning the financial consequences for the Union budget exempting certain cases of irregularity arising from operations co-financed by the Structural Funds and the Cohesion Fund for the 2000-2006 programming period from the special reporting requirements laid down by Article 5(2) of Regulation (EC) No 1681/94 and by Article 5(2) of Regulation (EC) No 1831/94.

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

The Committee on Structures for Fisheries and Aquaculture (CSFA) met twice in 2010. Main points discussed at the meetings include ex-post evaluation and the closure of the FIG.