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REPORT FROM THE COMMISSION

17th Annual Report on Implementation of Structural Funds (2005)

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17th Annual Report on Implementation of Structural Funds (2005)

This report is presented in accordance with Article 45(2) of Regulation (EC) N° 1260/1999 laying down general provisions on the Structural Funds. It is the 17th annual report and covers the activities of the Structural Funds during 2005.

The contents of this report are presented in more detail in the Commission staff working paper (annexed to this report).

1. INTRODUCTION

The year 2005 was marked, on the one hand, by intensive efforts to bring the 2000-06 programming period to a successful conclusion and, on the other hand, by the preparation of the new generation of cohesion policy programmes for 2007-2013. As regards the latter, in July the Commission presented a communication on draft Community strategic guidelines for economic, social and territorial cohesion¹. The guidelines set Community priorities for the new programmes. In addition, the Commission entered into negotiations with the European Investment Bank and other international financial institutions during 2005 in order to develop closer co-operation in pursuit of the aims of cohesion policy. Two initiatives were agreed in 2005: the JASPERS initiative (Joint assistance to support projects in the European regions) to help the main cohesion policy beneficiaries to prepare high-quality projects, and JEREMIE (Joint European Resources for Micro to Medium Enterprises) to facilitate access to finance for small and medium-sized enterprises and micro-enterprises².

2. ANALYSIS OF IMPLEMENTATION

2.1. Budget Implementation

2.1.1. ERDF

Implementation of the budget in 2005 was highly satisfactory in general. In all, 99.96% of commitment appropriations were implemented in 2005 (compared to 99.70% in 2004). Concerning payments, the implementation rate was 99.65% (99.03% in 2004). Commitments from previous years on which payments were still to be made³ amounted to EUR 55.4 billion at the end of 2005 (compared to EUR 48.97 billion in 2004) of which EUR 39.9 billion were for the ERDF (EUR 35.9

¹ COM (2005)0299 of 5 July 2005.

² A third joint initiative of the Commission, EIB and CEDB (Council of Europe Development Bank) - JESSICA is under discussion with the objective to provide support for financing projects for urban renewal and development using financial engineering techniques.

³ "RAL" (les restes à liquider). Open commitments from previous years.

billion in 2004). Total commitments reached EUR 27.1 billion in 2005 (EUR 26.5 billion in 2004).

It should be recalled that under the cohesion policy, which supports investments in, for example, major projects, it is normal for resources to be committed well in advance of payments, the latter reflecting implementation on the ground.

The financial management of the Structural Funds is subject to rules which set limits on the period during which payments relating to earlier commitments must be received: the so-called "n+2 rule"⁴. The open balance of commitments implemented in 2000-2003 was EUR 3.4 billion at the beginning of 2006. After the analysis of exceptions to the "n+2 rule" (State aid, major projects etc.), the estimate of resources at risk of decommitment is EUR 42 million (only 0.19% of total commitments).

2.1.2. *ESF*

Budgetary implementation in 2005 was highly satisfactory. 99.93 % of commitment appropriations were implemented in 2005 (against 99.07 % in 2004). Concerning payments, 99.86 % of appropriations were implemented (99.31 % in 2004), including EUR 720 million of additional appropriations allocated to ESF through the global transfer and an amending budget. The total RAL (outstanding commitments) at the end of year 2005 reached EUR 20.74 billion (compared to EUR 19.35 billion in 2004) of which EUR 20.44 billion were for the ESF current programming period (EUR 18.59 billion in 2004). The RAL relating to earlier programming periods fell from EUR 762.1 million at the end of 2004 to EUR 304.7 million at the end of 2005 (down 60 %).

Concerning the application of the "n+2 rule" to the 2000, 2001, 2002 and 2003 commitments at the end of 2005, there were 17 programmes involved amounting to a total ESF amount of EUR 125 131 596 (0.35% of the corresponding amount committed).

2.1.3. *EAGGF Guidance Section*

The budgetary implementation rate was highly satisfactory in 2005, at 99.37% for commitment appropriations and 99.93% for payment appropriations. Compared to 2004, an extra 8.8% was committed and an additional 4.7% was paid. Payments amounted to EUR 3 587 million of which EUR 3 099 million for the programmes

⁴ Subparagraph of Article 31 (2) of Regulation (EC) N° 1260/1999 sets out the "n+2 rule": The Commission shall automatically decommit any part of a commitment which has not been settled by the payment on account or for which it has not received an acceptable payment application, as defined in Article 32(3), by the end of the second year following the year of commitment or, where appropriate and for the amounts concerned, following the date of a subsequent Commission decision necessary in order to authorise a measure or an operation or by the end of the deadline for the transmission of the final report referred to in Article 37(1); the contribution from the Funds to that assistance shall be reduced by that amount.

The text of the report refers also to the "n+18 rule" that is defined in art. 32 (2) of the above mentioned Regulation: "All or part of a payment on account, depending on progress towards implementation of the assistance, shall be repaid to the Commission by the paying authority if no payment application is sent to the Commission within 18 months of its decision to grant a contribution from the Funds. If any interest is earned on the payment on account it shall be allocated by the paying authority to the form of assistance concerned".

2000-2006 (Objective 1: EUR 2 753 million; Leader+ EUR 334.5 million; PEACE EUR 11.5 million) and EUR 487.4 million for the closure of 78 programmes from the programming period 1994-1999. The total RAL at the end of 2005 was EUR 7.085 million (compared to EUR 7.657 million in 2004).

Following the implementation of the "n+2 rule", EUR 37.2 million were decommitted (1.28 % of total commitments for the corresponding instalment).

2.1.4. *FIFG*

In all, 99.57% of commitment appropriations and 94.16% of payment appropriations were implemented in 2005. The total RAL for the FIFG at the end of 2005 was EUR 222 million (compared to EUR 165.5 million in 2004).

As regards the implementation of the "n+2 rule", the estimates for decommitments were around EUR 50 million for 2005 (8.9% of total commitments for 2003).

2.2. **Programme Implementation**

2.2.1. *Objective 1*

Based on the information provided by the Member States in the form of certified expenditure claims (for details see annex, part 5), in 2005 the Objective 1 programmes continued to focus investment on basic infrastructure projects (40.1%), with over half of all investment in this category used for transport infrastructure (54.3% of total infrastructure). More than one third (34.5%) of Objective 1 resources were invested in the productive environment, continuing to focus on assisting SMEs and the craft sector (30.4%). Investment in projects targeted at human resources used 23.8% of resources in Objective 1 regions. Interventions in this field were divided almost equally between labour market policies, such as measures for young people and the long-term unemployed (32.1%), education and vocational training (30.8%) and other measures.

2.2.2. *Objective 2*

In Objective 2 regions, the main focus of the programmes continued to be on the productive environment, with over half of all financial resources (57%) devoted to this category. Within this field, assistance to SMEs and the craft sector predominated, with 57.2%. The second most important field of intervention was infrastructure, with 28.7% of all Objective 2 resources spent in this area. Unlike the Objective 1 programmes, these expenditures do not concern investment in basic infrastructure, such as transport and the environment. Instead, the most important area in financial terms was rehabilitation of brownfield sites and other declining areas (43.9%). In the human resources category (10.1% of all investment in Objective 2 regions), the main fields of investment were workforce flexibility, entrepreneurial activity, innovation, information and communication technologies (31.2% of the total).

2.2.3. *Objective 3*

The main emphasis of ESF investments in 2005 continued to be on support for the European Employment Strategy, particularly measures aimed at improving

employability in the labour market, lifelong learning and equal opportunities; on the other hand, measures to promote entrepreneurship declined in importance. There was a difference in the implementation of programmes, measured in financial terms, between EU15 where the programmes have been established longer and EU10 where certain Member States experienced difficulties in getting some projects and measures underway in 2005 - the first full year of programme implementation following accession in May 2004.

2.2.4. *Fisheries outside Objective 1*

The year 2005 saw improvements in the implementation of the structural policy in the fisheries and aquaculture sectors as reflected in financial implementation. In particular, the measures supported were closely aligned with the objectives of the 2002 reform of the Common Fisheries Policy.

2.2.5. *Community Initiatives*

2.2.5.1. Interreg

Implementation of 81 INTERREG III/Neighbourhood programmes continued to make good progress in 2005. One important task for the programmes was to update the mid-term evaluations. As a consequence, almost all programmes were amended in 2004 to take account of the evaluation results. The authorities responsible for the new programmes resulting from enlargement, many of which are Neighbourhood Programmes, made a particular effort to ensure that they got off to a successful start. In addition, the INTERACT support programme continued to contribute to efficient and effective implementation of INTERREG III programmes by organising a large number of best-practice events and by producing management manuals.

2.2.5.2. Leader

Some 73 LEADER+ programmes were approved for the period 2000-2006. Of the proposed 938 Local Action Groups (LAGs) in which the actions are managed, 892 were finally selected. The local development strategy theme "Using natural and cultural resources" proved to be the most popular. The monitoring reports submitted in 2005 indicated that between 26 and 178 projects had been approved since the start of the programming period. The main areas of intervention are: tourism, support to SMEs, renovation and development of villages and rural heritage, basic services to the rural population, and the rural economy.

2.2.5.3. Urban

In 2005, 20 thematic networks were approved, each being organised around different themes. 179 cities are partners, including 36 cities in the new Member States. At the informal meeting of ministers in Bristol in December 2005, the *Urban Audit 2005: key indicators on living conditions in European cities* was published⁵.

⁵ For more details see: <http://www.urbanaudit.org/>

2.2.5.4. EQUAL

The year 2005 saw the operational start of the 2 000 Development Partnerships projects⁶ of the second round of EQUAL, which had been selected at national level during 2004; they included around 400 projects in the new Member States. Around one third of the second-round Development Partnerships are working on the theme of employability.

The results from the approximately 1 400 Development Partnerships of the first round of EQUAL which had completed their work during 2004 and 2005 were the subject of number of seminars at local, national and European level.

2.2.6. *Innovative Actions*

2.2.6.1. ERDF

In 2005, regional authorities submitted bids for 51 innovative actions. The top 28 were chosen for support, and financing decisions were taken on 22 of these by the end of the year. The programmes are organised around the following themes: knowledge and technological innovation, information society and sustainable development.

2.2.6.2. ESF

During the year, 38 projects relating to Local Employment Strategies were finalised. 28 projects were selected under the second round of the call for proposals on "Innovative approaches to the management of change". Some 7 projects were selected on the subject of "Transfer and dissemination of innovation from ESF Article 6 projects" which is designed to encourage the take-up of ideas in the main programmes.

2.2.6.3. FIGG

During 2004 and 2005 actions were taken to implement projects selected following the calls for proposals launched in 2002 and 2003. An ex-post evaluation of transnational projects for innovative actions in the fisheries sector was completed in 2005. The evaluation suggested that projects supported under the main operational programmes tended to perform better than the innovative action projects with respect to criteria such as effectiveness, efficiency, quality of the monitoring system and sustainability.

6 Development Partnerships are operational entities of the Equal initiative bringing together key actors (such as local and regional authorities, NGOs, enterprises, social partners) on a geographical or sectoral level to tackle discrimination and inequality.

3. CONSISTENCY AND COORDINATION

3.1. Consistency with other Community Policies

3.1.1. Competition

Under Regulation (EC) No 1260/99, Member States are required to verify that all operations comply with EC legislation, including State aid rules. Where the Commission is informed of any breach of EC legislation, or where audits demonstrate that this is the case, appropriate action is taken. In order to provide full transparency, Member States indicate the State aid regimes for which Structural Funds assistance is used in their programmes. Any substantial modification of this list requires a new Commission decision. However, no infringement cases were brought to the attention of the Commission in 2005.

3.1.2. Environment

The Commission has continued to encourage investments in the environment in 2005 through the Cohesion Policy. The main focus has been on providing co-financing for the investment heavy acquis for urban wastewater, water supply and waste management, especially in the new Member States. The application of the Strategic Environmental Assessment Directive to the future Operational Programmes as part of ex-ante evaluation is a particular challenge for Member States. For the list of major projects supported in this field by the ERDF, see part 3 of the annex.

3.1.3. Internal Market

Observance of public procurement rules is extremely important in the context of the European single market. Where the Commission is responsible for approving an individual project, it ensures either that these rules are followed or that the Member State itself undertakes to follow them. In the programming context the Commission requires information from the Member States in the annual reports on the programmes. In 2005, the Directorates General for Regional Policy and for Internal Market developed a “modus operandi” to co-ordinate the Commission's action in cases of infringement.

3.1.4. Transport

Following the revision of the Community guidelines on the development of trans-European networks, transport priorities take precedence in the cohesion policy. In preparation for the 2007-2013 period, many new European transport policy initiatives, such as ERTMS, Motorways of the Sea or the 30 priority TEN projects feature in the draft Community Strategic Guidelines on Cohesion. For a list of major projects supported in this field by the ERDF, see part 3 of the Annex.

3.1.5. Gender equality

The Commission continued its work to promote gender equality in the Structural Funds and the Cohesion Fund. The High-Level Working Group on gender equality met twice to discuss implementation and to exchange best practices.

3.2. Coordination of Instruments

3.2.1. The Structural Funds and the Cohesion Fund

As a result of the enlargement of the European Union in May 2004, ten new Member States are covered by the Cohesion Fund. There are now 13 benefiting Member States. As a result of its economic growth, Ireland has not been eligible for the Fund since 1 January 2004. Its per capita GDP, at 138%⁷ of the Community average, is significantly higher than the eligibility threshold of 90%.

The principal instrument for coordination between funding under the Cohesion Fund and the Structural Funds is the strategic reference framework (SRF) submitted by Member States that provides for general strategy in the transport and environment sectors. The SRF enables the Commission to verify each project to be co-financed from the Cohesion Fund in order to avoid duplication of funding with programmes co-financed by the Structural Funds.

3.2.2. The Structural Funds and the EIB/EIF

In addition to the continuing efforts in 2005 to coordinate and complement ERDF and Cohesion Fund funding, and the EIB operations for the current programming period, the Commission and the EIB began preparatory work in 2005 to increase cooperation in the next programming period. The objectives set for the next period focus on greater cooperation at all stages of the programming work, as well as a coordinated approach to monitoring the implementation of projects and programmes.

JASPERS (Joint Assistance to Support Projects in European Regions) is a new technical assistance facility to be managed by the EIB. It was agreed and set up in 2005 by the Commission and the EIB, in partnership with the EBRD, in order to assist cohesion Member States. Improving access to finance and risk capital for SMEs in the regions of the EU is a key element of the Lisbon agenda. In this context, the Commission and the EIB Group (EIB-EIF), launched in 2005 a new joint initiative known by the acronym "JEREMIE" (Joint European Resources for Micro to Medium Enterprises) to improve access to finance and develop micro credit for SMEs in the regions supported by the Structural Funds in the next budget period.

4. EVALUATIONS

During 2005, an evaluation of the contribution to the Lisbon strategy was completed. The evaluation confirmed that programmes supported by the Structural Funds have contributed significantly to the Lisbon objectives, even though there has been little formal co-ordination - with the exception of the European Social Fund - between the Lisbon Agenda and the individual programmes. In many regions, more than two thirds of expenditure is currently allocated to activities that are directly relevant to the Lisbon objectives and a clear impact can be seen in terms of quantitative targets achieved. In regions where a lower share of programme expenditure is directly related to the Lisbon Agenda, the main reason is the significance of support for basic infrastructure, reflecting particular investment needs in the least prosperous regions.

⁷ Eurostat figure for 2005.

During 2005, three strategic studies for the programming period 2007-2013 were launched: Strategic evaluation on Transport Investment Priorities under the Structural and Cohesion Funds, Strategic evaluation on Environment and Risk prevention and Strategic evaluation on Innovation-based economy.

5. FINANCIAL CONTROLS

5.1. ERDF

In 2005, the audits to check the effective functioning of key elements of management and control systems in Member States for mainstream programmes continued. By the end of the year, audits had been conducted on 52 programmes. The main problems identified from the work done so far were deficiencies in first-level management checks⁸, and weaknesses in procedures for the certification of expenditure by the paying authority.

As regards the new Member States, the audit work concerned the assessment of the systems descriptions submitted under Article 5 of Regulation (EC) No 438/2001 and verification audits on the functioning of the systems as described. The audits that were carried out identified certain weaknesses, such as insufficient quality control carried out by management, and lack of coverage or insufficient quality of the audit work carried out by the national audit bodies.

5.2. ESF

Out of a total of 214 ESF operational programmes, 55 (34 of which were new) were audited during 2005. The audits found inadequate first-level checks by some managing authorities or intermediate bodies, breaks in the audit trail, weak certification processes or inadequate certification procedures, little or no separation of functions, weaknesses in the IT systems and an insufficient level of publicity of ESF funding.

On-the-spot audits of a sample of existing systems covered 19 of the 25 ESF programmes in all new Member States.

Fourteen closure audits took place covering 40 programmes from the 1994-99 period in 8 Member States.

5.3. EAGGF

For the 1994-1999 period, 7 audits were carried out in 2005, completing the planned ex-post audit programme for this period.

⁸ Art. 4 of the Commission Regulation (EC) N° 438/2001 stipulates: "Management and control systems shall include procedures to verify the delivery of the products and services co-financed and the reality of expenditure claimed and to ensure compliance with the terms of the relevant Commission decision under Article 28 of Regulation (EC) No 1260/1999 and with applicable national and Community rules on, in particular, the eligibility of expenditure for support from the Structural Funds under the assistance concerned, public procurement, State aid (including the rules on the cumulations of aid), protection of the environment and equality of opportunity".

For the 2000-2006 period (EU-15), 7 audits were carried out. Typical problems identified were inadequate management controls, failure to verify eligibility criteria in accordance with the provisions of agricultural legislation, and a low level of independent controls.

For the 2004-2006 period (EU-10) the analysis of systems descriptions was completed and 4 audits were undertaken.

5.4. FIG

A total of 7 on-the-spot controls were carried out in 2005. Three of these concerned the verification of management and control systems of 2000-2006 programmes in three Member States and one control concerned the closure of a 2000-2006 programme. Three on-the-spot controls concerned innovative actions where seven projects were audited in three Member States (Italy, United Kingdom and Spain). The main problems found were certain irregularities, such as over declaration of staff costs and travel and subsistence expenditures, VAT and payments for undocumented expenses. Lastly, missions were undertaken to assess the functioning and efficiency of the managing and payment authorities of the new Member States.

5.5. OLAF

During 2005, OLAF undertook 43 missions in the Member States relating to measures co-financed by the Structural Funds. Some 24 of these missions concerned on-the-spot checks, while 19 were conducted for other purposes, e.g. to gather information or to assist either national administrations or judicial authorities. Typical problems identified included false declarations, false invoicing and failure to abide by public procurement rules.

In 2005, Member States themselves communicated to the Commission, in accordance with Regulation (EC) No 1681/94, some 3 356 cases of irregularities involving EUR 466 617 970 affecting payments incurred during the 1994-1999 and 2000-2006 periods. Both the amounts and the number of cases showed a slight increase compared to 2004⁹. These results are probably the effect of the work being undertaken to finalise the closure of the programmes relating to the period 1994-1999 and, encouragingly, indicate an increased awareness by the Member States of their obligations. Therefore, the increase is likely to be due to increased vigilance and better reporting rather than an actual increase in the number of irregularities.

During 2005, Regulation (EC) No 1681/94 was amended by Regulation (EC) No 2035/2005¹⁰ aimed at simplifying procedures and clarifying certain issues, while ensuring that the Community's financial interests are protected.

⁹ 2004 : number of communicated cases 3 037; overall amount related to the communication € 431 million.

¹⁰ OJ L 328, 15.12.2005, p. 8.

6. COMMITTEES ASSISTING THE COMMISSION

6.1. Committee on the Development and Conversion of Regions (CDCR)

In 2005, the Committee, in its role as a management committee, was consulted on the amendment of Regulation (EC) No 1681/94 concerning irregularities and recovery of sums wrongly paid in connection with the financing of structural policies and the organisation of an information system in this field. The Committee was also consulted on proposals for various types of technical assistance measures financed under Article 23 of Regulation (EC) No 1260/1999.

6.2. ESF Committee

The Committee met four times in Plenary Session and its Technical Working Group met six times. It discussed a wide range of issues relating to both current implementation of the ESF and preparations for the future programming round.

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

The STAR Committee met eight times in 2005 and gave favourable opinions on 32 amendments to rural development programmes under Article 44(2) of Council Regulation (EC) N° 1257/1999 and 13 amendments to rural development programmes under Article 4 of Council Regulation (EC) N° 1268/1999.

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

In 2005, the Committee was consulted on the following issues: FIGG technical assistance for 2005; draft Commission decision on project No I/0016/90/02 – Azienda Agricola LE CANNE; preparation of Community Guidelines for State Aids for rescue and restructuring of firms in the fisheries sector; draft Commission Regulation amending Commission Regulation (EC) No 1681/94 concerning irregularities and the recovery of sums wrongly paid in connection with financing of the structural policies and the organisation of an information system in this field.