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**COMMISSION STAFF WORKING PAPER**

**‘Cohesion Policy: Responding to the economic crisis’**

**A review of the implementation of cohesion policy measures adopted in support of the  
European Economic Recovery Plan**

## INTRODUCTION

The point of cohesion policy was always to help reduce socio-economic disparities and promote real convergence in the European Union by investing in structural change. With total financial resources of EUR 347 billion for the 2007-2013 period, 228 billion of which has been earmarked for Lisbon-related investment, cohesion policy provides powerful support for budgetary stability and public investment in the EU's Member States and regions.

Though not an anti-cyclical economic policy, it does give the EU a powerful and relevant lever for promoting investment in the real economy. With national and regional economies reeling from the crisis, cohesion policy had a key role to play in the European Economic Recovery Plan<sup>1</sup> and in the exceptional measures needed, for a limited period of time, to help the Member States counter the effects of the crisis.

The Commission proposed a set of legislative changes and targeted recommendations<sup>2</sup>, in the main to speed up the Convergence, Competitiveness and European Territorial Cooperation programmes and accelerate financing for programmes already approved for 2007-2013. This was done by way of increased EU pre-financing and a series of simplification measures. The recommendations to Member States following the Commission Communication 'Cohesion policy: investing in the real economy' were adopted on 16 December 2008, while the legislative changes<sup>3</sup> entered into force in the second quarter of 2009. The Commission has been working steadily to promote the Recovery Plan and encourage the Member States to make optimum use of the measures adopted.

By featuring prominently in the Recovery Plan, cohesion policy has shown it can adapt its means and tools and, as a consequence, its regulatory framework to tackle short-term crisis situations. The effectiveness of the Recovery Plan depended also on the ability to amend certain regulatory provisions, such as increasing advance payments for Member States in 2009 to provide liquidity and to speed up the implementation of programmes or to extend the scope of eligible expenditure to strategic areas such as energy efficiency and labour market policies. This 'legislative package' was adopted within five months, in a timetable commensurate with the urgency of the crisis. This success resulted from the quality of the inter-institutional work and the fruitful cooperation between institutional partners (Council, European Parliament, Committee of Regions and European Economic and Social Committee) in responding quickly and appropriately to political needs.

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<sup>1</sup> Commission communication 'A European Economic Recovery Plan' - COM(2008) 800, 26.11.2008.

<sup>2</sup> Commission Communication 'Cohesion Policy: investing in the real economy' - COM(2008) 876, 16.12.2008.

<sup>3</sup> The legislative package comprised three regulatory amendments:

- Council Regulation (EC) No 284/2009 amending Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund concerning certain provisions relating to financial management (OJ L 94, 8.4.2009, p. 10); Regulation (EC) No 284/2009 entered into force on 9 April 2009;

- Regulation (EC) No 396/2009 amending Regulation (EC) No 1081/2006 on the European Social Fund to extend the types of costs eligible for a contribution from the ESF (OJ L 126, 21.5.2009, p.1); Regulation (EC) No 396/2009 entered into force on 22 May 2009;

- Regulation (EC) No 397/2009 amending Regulation (EC) No 1080/2006 on the European Regional Development Fund as regards the eligibility of energy efficiency and renewable energy investments in housing (OJ L 126, 21.5.2009, p. 3); Regulation (EC) No 1080/2006 entered into force on 10 June 2009.

To complete the simplification exercise, a proposal for a third modification of the Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (hereinafter "General Regulation"), the 'Simplification package', entered into force on 25 June 2010<sup>4</sup>.

Drawing primarily on the material provided by the 27 Member States in their 2009 national strategic reports<sup>5</sup>, this document reports on the implementation and results of the aspects of the Recovery Plan that concern cohesion policy in the European Union.

This initiative takes place within the broader framework of the reporting on the state of progress of the Recovery Plan<sup>6</sup>. It is intended to be a contribution to the monitoring of the cohesion policy implementation and to provide valuable feedback for future policy initiatives. This review will also serve as reporting for the European institutions, in particular the European Parliament where in April 2009, the Commission committed itself to present such a report during the second half of 2010<sup>7</sup>.

## **1. THE ECONOMIC CONTEXT AND CONSEQUENCES**

As the crisis took hold, banks tightened their lending standards sharply, and households and businesses alike found it increasingly difficult to access credit. Against this backdrop, financial support for business investment, innovation and technological and industrial development began to dry up and unemployment soared. As public finances came under increasing strain, many cohesion projects had to be cancelled before the contracting phase got under way or during implementation, as beneficiaries found it impossible to secure their own contribution.

In addition, the economic situation in the Member States differed, producing varying effects. A few Member States were rapidly confronted with major budgetary difficulties, and even with problems in matching EU funds. Others came forward with a full anti-cyclical national programme. Moreover, in a programming period where particular attention is being paid to 'soft measures', such as support for innovation and innovative businesses, it was evident that small businesses were frightened to take part in new, innovative and hence risky projects. This obviously had an impact on how cohesion policy programmes were run.

While progress reports on the Recovery Plan<sup>8</sup> made some initial efforts to quantify the impact of Member States' recovery measures and found this to be largely positive, the overall impact of the specific cohesion policy-related measures remains difficult to assess, for several reasons. First of all, not all Member States put the full Recovery Plan package into effect. As the crisis had been affecting the Member States in different ways, the Recovery Plan was designed to give them maximum flexibility in coping with the crisis. The proposed measures

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<sup>4</sup> OJ L 158, 24.6.2010, p.1.

<sup>5</sup> National Strategic Reports are available at: [http://ec.europa.eu/regional\\_policy/policy/reporting/ms\\_reports\\_en.htm](http://ec.europa.eu/regional_policy/policy/reporting/ms_reports_en.htm).

<sup>6</sup> Commission's two progress reports on the European Economic Recovery Plan, published respectively in June and December 2009, and available at: [http://ec.europa.eu/financial-crisis/documentation/index\\_fr.htm](http://ec.europa.eu/financial-crisis/documentation/index_fr.htm)

<sup>7</sup> Declaration made by Vice-President Barrot during the EP plenary session of 1 April 2009

<sup>8</sup> See above footnote 6

were optional to allow Member States to use only those which were most relevant to their specific domestic difficulties.

Secondly, the take-up of Recovery Plan measures often depended on the availability and weight of Structural Fund resources in the Member States. Some countries intended to make use of most of the measures, while others saw no significant impact on the operation of the Structural Funds, particularly in programmes with relatively low financial allocations.

Lastly, cohesion policy is a long-term mechanism and, most of the time, results are visible later in the programming period. Further impacts can still be expected at national and regional level.

In addition, the Member States' reporting was fragmentary. There were some difficulties in quantifying uptake and impact; this concerned certain measures, such as accelerating intermediate payments for major projects, as these payments are made on the basis of priority axes and not per project; or increasing the share of energy-efficiency investment, due to the specificity of national schemes.

However, regardless of the flexibility offered to Member States, all the Commission's efforts to accelerate and facilitate the use of Structural Funds on the ground were made subject to the key principle of sound financial management and with the objective of retaining efficient control. For instance, audit controls still applied, even with cohesion policy working under crisis conditions. Audit authorities at national and European levels had ensured that implementation of the measures proposed in the Recovery Plan remained regulatory-based.

The aim of the report is therefore to give concrete examples of implementation at national level so as to show the real use of the recovery measures on the ground and to point at good practices.

## **2. IMPLEMENTATION AND RESULTS OF THE RECOVERY PLAN AT NATIONAL LEVEL**

Within the European Economic Recovery Plan, the specific cohesion policy-related interventions had four main objectives: (i) to accelerate the actual take-up of Structural Funds, (ii) to offer flexibility in programme management, (iii) to extend the scope of eligible expenditure in strategic areas, and (iv) to simplify the use of technical support for programme implementation. These four points were to speed up implementation of programmes and accelerate financing to beneficiaries, bringing together thirteen cohesion policy measures with varying nature and scope. Some were targeted recommendations to Member States; others were regulatory changes to the current programming period to take account of difficulties caused or increased by the crisis.

All these measures are presented successively with four aspects:

- a summary of each measure;
- its economic objective;
- the status of implementation in the European Union;
- concrete examples at the national level.

Member States have also adopted measures to supplement and boost the effectiveness of mechanisms in place at international and European level. According to the European Policies Research Centre, ‘the implementation of crisis measures through cohesion policy must be seen within the context of broader domestic recovery packages, which may be of more relevance in shaping programme responses. All countries and (often) regional and local authorities have sought to develop responses to the economic crisis, in line with their policy competence and resources.’<sup>9</sup> Some examples of measures adopted at national and regional level are provided in this report to illustrate synergies between these different initiatives.

### **Objective 1: to accelerate and facilitate the actual take-up of Structural Funds**

#### ***– Increase the advances to ERDF and ESF programmes to boost the cash flow to national, regional and local authorities***

Additional advance payments provided an immediate cash injection of EUR 6.25 billion in 2009, with a view to boosting pre-financing and accelerating investments for the benefit of final beneficiaries, all within the financial limitations agreed for each Member State (and programme, in the case of the European Territorial Cooperation objective) for the 2007-2013 period. This amendment to the General Regulation brought the total of advance payments to EUR 11.25 billion in 2009. This amount included EUR 2.3 billion from the European Social Fund (ESF). All such payments were made to the Member States by June 2009.

This measure helped give momentum to employment- and growth-related initiatives during the critical early stages of the Recovery Plan, allowing more money to be spent rapidly on priority projects. It also gave Member States a means of launching additional European Regional Development Fund (ERDF) and ESF projects with a view to supporting employment and creating new jobs and businesses. Indeed, Member States underlined the facilitating role of the additional advances in the context of their liquidity crunch.

Almost all the Member States have indicated how this measure was applied, often involving changes to national policy and procedures. However, the use of advances varied from one country to another. Accelerated spending through the EU budget provided support to Member States and regions which were feeling the strain of severely constrained public finances and enabled Structural Funds programmes to be run faster.

In June 2010, the General Regulation was amended once again to simplify certain requirements and to facilitate the management of EU funding. With regard to the ESF, the five Member States hardest hit by the crisis (EE, HU, LT, LV and RO) have received EUR 371.3 million in additional advances.

Most countries used these additional resources on projects supporting the public sector (i.e. local authorities) and NGOs. Advances were also used to support SMEs, through guarantees and under State aid schemes. Some Member States (e.g. EE, PL) adapted their schemes to up the pace and volume of advances to both public and private beneficiaries or to reach out to specific groups at risk. In other cases, advances were used to address specific objectives such as promoting competitive funding schemes for urban regeneration projects in qualifying towns (e.g. Gateways and Hubs in Ireland).

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<sup>9</sup> IQ-Net Review Paper No 24 of May 2009 on ‘Programme implementation in times of economic crisis’ from European Policies Research Centre — page 13.

The measure was favourably received by Member States, particularly in terms of helping to meet financial targets for 2009 and avoiding any de-commitment. Some Member States emphasised the positive impacts associated with easing liquidity and supporting investment, as in the OP Research & Competitiveness in Italy, which has a large State aid component, or in Greece, where the advances enabled payments to be made to beneficiaries in key priority areas (e.g. public procurement of major projects, support for SMEs and vocational training).

At the end of 2009, the Commission made an ad hoc enquiry concerning payments made on the ground by managing authorities. This showed that advances and interim payments to beneficiaries were being fully used as instruments to foster implementation. However this had not always been the case in the past. In the future, it will be important to make sure that advances are used to finance cohesion policy programmes.

#### Examples

In the **Czech Republic** short-time working schemes, including training and covering training costs and a temporary wage supplement for employees affected by the crisis, were launched at the end of March 2009. The schemes cover all sectors of the economy and are co-financed by the ESF.

In **Ireland** supported schemes help to make National Spatial Strategy designated Gateways and Hub Towns more attractive as places to live, work in and invest in, and boost their development potential by enhancing the economic, social and environmental conditions of the growth centre. There are nine designated Gateways. The Gateway and Hub Funds in the Border, Midland and West (BMW) and Southern and Eastern Regions are financed from advances under the respective programmes. The BMW Regional Assembly announced the allocation of EUR 17.1 million under the scheme in October 2009, following a competitive call for proposals which was launched in July 2009. Twelve integrated growth centre strategies have been approved. Examples of measures funded under this scheme include the allocation of EUR 1.9 million to the Dundalk Gateway for redeveloping Market Square in the town centre and make it a multi-functional civic and social focus of the gateway.

During 2009, **Latvia** received EUR 59.76 million additional financing via advance payments from ERDF and ESF. This led to an EUR 74.6 million increase in 2009 State Budget spending on EU co-funded projects channelled to priority programmes for economic recovery and social safety, i.e. EUR 21.3 million to employment schemes, EUR 7.1 million to education, EUR 1.7 million to housing energy efficiency, EUR 15.4 million to different projects in municipalities (transport, water supply systems etc.), EUR 21.8 million to SME support and EUR 7.3 million to other activities. To facilitate project implementation, Latvia has introduced several simplification measures, i.e. advance payments for all EU co-funded projects up from 0 to min. 20% to all beneficiaries; advance payments for entrepreneurs up from 0 to 35%; and shorter deadlines for payment claim evaluation.

In **Luxemburg**, as regards the ERDF operational programme, the managing authority requested that project managers pre-finance 100% of the initial budgets of projects submitted. However the managing authority noted that as priorities had been on research and innovation, it was difficult to expect any short term effect from an increase of available funds.

EUR 665 million were paid to **Spain** in 2009 as an additional 2,5% advance. This was immediately distributed to beneficiaries, including SMEs. As a result, project promoters were able to increase their cash flow in a climate of budgetary restrictions and credit crunch and thus maintain or accelerate their investment projects.

#### *– Accelerate intermediate payments for major projects*

Although the impact of this measure in the acceleration of the implementation of projects is difficult to measure, the amendment to the General Regulation made it possible to declare and

reimburse expenditure on major projects which have not yet been adopted by the Commission and therefore accelerate the payment flows to the Member States concerned. While this measure has been contributing to accelerate the actual take-up of the Structural Funds, it may be recalled that in any case, major projects need to be approved by a Commission decision to benefit from related regulatory provisions.

#### Examples

In **France** several regions took the opportunity to declare expenditure and accelerate implementation of major projects that had not yet been adopted but were under negotiation: for example, Rhône-Alpes region with a broadband network. In some cases, this had a decisive and major impact on accelerating expenditure certification, e.g. La Réunion Island, which certified EUR 80 million for the major project 'Route des Tamarins' in 2009, and EUR 35 million for the project 'Irrigation du Littoral Ouest' in 2010 (both projects are 'bridge projects' and have already been co-financed in the 2000-2006 period).

**Malta** has declared to the Commission expenditure on major projects. This concerns in particular the major project 'Malta South Wastewater Treatment Infrastructure', which was officially submitted to the Commission in July 2010. However, a payment claim requesting some EUR 13.2 million in favour of this major project had already been received and processed by the Commission in January 2010.

For **Portugal**, this possibility of declaring expenditure on major projects not yet approved by the Commission was used in 2009 and 2010 for two OPs, under the ERDF and the Cohesion Fund. Seven major projects, with both productive and infrastructure investments, were concerned, involving some EUR 300 million of total expenditure.

#### – *Simplify the system for advances paid to beneficiaries under State aid schemes*

In order to support businesses, particularly small and medium-sized ones, the conditions governing the payment of advances as regards State aid schemes were made more flexible by allowing advances up to 100 % of the total aid (until end of 2010), instead of only 35 %, provided the other conditions laid down in Article 78(2) of the General Regulation are met.

As far as cohesion policy measures are concerned, ten Member States (CY, DE, EE, EL, IT, LV, PL, PT, RO, SI) indicated that they had used this simplification. Some Member States (e.g. EL) had decided to increase the threshold from 35 % to 50 %, rather than the full 100 %.

In addition, the Commission put in place a Temporary Framework under the State aid rules<sup>10</sup> for Member States to tackle the effects of the credit squeeze on the real economy up to 2010 and to facilitate speedy access to credit by businesses (see below).

#### Examples<sup>11</sup>:

The **Greek** authorities approved four aid schemes for investments concerning green enterprises, green infrastructures, the textile sector and the transformation sector. These schemes make provision for 50% advance of grants. The total public budget for these schemes is EUR 275 million. Another scheme for small and very small enterprises in the transformation sector, tourism, commerce and services allows advances of 40 % of the aid. The public budget for this scheme is EUR 530 million.

<sup>10</sup> Commission communication 'Temporary framework for State aid measures to support access to finance in the current financial and economic crisis' (OJ C 83, 7.4.2009, p.1).

<sup>11</sup> Please note that all examples provided are taken from measures that are co-financed by Structural Funds.

The **Portuguese** national system of business incentives was revised in March 2009, allowing for enhanced advance payments, based on the amendment to EC regulations for the certification of expenditure. The option taken was to increase such advances to 50% of the total aid. This was an important step in injecting more liquidity into the real economy, providing companies (particularly SMEs) with better cash flow to start their investment projects.

Because of the financial crisis the beneficiaries had difficulties in securing the financial resources for starting project implementation or to fund their own contribution to project financing. The main **Romanian** measure to help beneficiaries was to raise the maximum pre-financing amount for public beneficiaries from 15% to 30% of the total eligible contract amount and to provide pre-financing for the beneficiaries under State aid arrangements, of up to 35% of the grant. This facilitates potential beneficiaries' access to the funding necessary for project implementation. At the same time, the government decided to allow beneficiaries to put a pledge / mortgage on the assets financed by the project to facilitate borrowing, but only for the purpose of implementing the project.

### **Objective 2: to offer flexibility in programme management**

#### ***– Adapt the priorities of existing Operational Programmes / reprogramming***

Another recommendation by the Commission to respond to the crisis was to modify Operational Programme (OP) objectives and priorities so as to accelerate spending in areas with more growth potential, and to simplify the delivery mechanism and content of the programmes. During the first half of 2009, the Commission had been constantly in touch with national authorities to ensure that maximum progress was made on the ground and to examine any early changes to the Operational Programmes necessary to meet new needs, simplify delivery and speed up implementation of established priorities. As a result, improved take-up of intermediate payments was noted during the second half of 2009 and beyond (see section on extending the final date of eligibility of expenditure for the 2000-2006 programming period to 30 June 2009).

It is important to emphasise that Member States reconfirmed unanimously the continued relevance of the agreed medium and long-term objectives of the National Strategic Reference Frameworks (NSRF) and the sectoral and regional programmes. All stressed the need to maintain the fundamental priorities of operational programmes based on the growth and jobs objectives of the Lisbon Strategy (i.e. earmarked objectives), as being the best way to tackle the crisis.

Seventeen Member States (AT, BG, DE, EE, EL, ES, FR, HU, IE, IT, LT, LV, NL, PL, PT, SI, UK) are known to have amended their operational programmes in response to the economic crisis. However this represents a relatively small number of OP modifications (mainly to use Structural Funds resources in energy efficiency for the housing sector and to support measures to stem the rise of unemployment). The fact is that many operational programmes were already considered to be broadly in line with the key challenges and flexible enough to cope with the changing socio-economic context and to accommodate specific new measures to combat the crisis. As a consequence, some Member States (e.g. FI, IT) merely adjusted their priorities.

These adjustments resulted mostly in focusing more on labour market activation measures, targeting groups most affected by the crisis. In particular, Member States used the European Social Fund (ESF) to widen the coverage of unemployment benefits (IT), to extend the scope to all age groups (AT), to extend short-time working schemes (DE, EL) and to combine them with training (CZ), to increase support for entrepreneurship (PT), to support companies by

initiating ESF State aid schemes (RO) or to offer work opportunities to unemployed persons who were not entitled to any social insurance unemployment benefit (LV). Other Member States modified their ESF programmes by taking short-term anti-crisis measures specifically targeted at unemployed people, such as transferring resources to measures to make the unemployed more employable (UK), to reorient priorities towards the unemployed (IE), or to adapt to important socio-economic changes in a particular region (ES). Poland has changed the selection criteria to ensure ESF projects are accessible to workers in the sectors particularly affected by the crisis.

In addition, Member States decided to make more extensive use of financial engineering instruments (i.e. JESSICA, JEREMIE and micro financing funds for those affected by the crisis).

Examples:

In **Austria**, the financial and economic crises have impinged negatively on the programme. The managing authority of Upper Austria has officially requested a modification to the OP, which has two priority axes with a total of nine action fields. The managing authority modifies and extends 'knowledge and innovation' by reducing RTD investments and extending assistance for research and technology infrastructure beyond universities, through additional promotion of tourism, extension of clusters and networks, and business development by adapting the indicators but without any changes to the financial tables. It is proposed that the RTD investments be decreased as companies are currently devoting more resources to technology transfer than to research. Promotion of the tourism sector and multimodal transport and ports represent a new approach. In line with these changes, the indicators will also need to be adjusted. The proposed revisions of the Operational Programme are consistent with the goals of the Lisbon strategy and with effective delivery of the programme.

In summer 2009, **Hungary**, whose labour market was hardly hit by the crisis, decided to amend the ESF-financed Social Renewal Operational Programme. The OP financial table was modified to reallocate EUR 76.9 million from Priority 2 ('Improving adaptability') to measure 1.1.2 ('Decentralised programmes for the employability of disadvantaged people') of Priority 1 ('Improving employability, promoting entry to the labour market'). This re-allocation increased the resources for active labour market interventions as well as supporting disadvantaged people and persons made redundant as a result of the economic crisis.

In **Ireland**, the Monitoring Committee approved in June 2009 a proposal to revise the Human Capital Investment Operational Programme. This included a change in emphasis in ESF support from equality (including disability) measures to activation of the unemployed in line with the national budget. Ireland justified this request by the increase in the unemployment rate from 4,6% in 2007 to 11,4% in early 2009. The Irish authorities also requested an increase in the intervention rate from 27,6% to 41% to help alleviate extreme budgetary pressures and to increase liquidity in the labour market, facilitating a 'cash' injection of ESF funds into the economy in 2009 and 2010, the years when the ESF contribution is most needed.

– *Adjust the European contribution to projects (i.e. 'frontloading')*

To ensure sufficient co-funding, Member States can vary the proportion of EU and national contributions for individual projects within a programme: for example, some operations could command 100% funding by cohesion policy funds at the beginning of the programming period. Available since the beginning of the 2007-2013 programming period, this opportunity was facilitated by the increase in advance payments available to the managing authorities. As the intermediate and final payments are made on the basis of the co-financing rate of the

priority axis, frontloading funding in this way would need to be offset by other projects with higher rates of national funding by the end of the programming period.

Frontloading of Community expenditure has been adopted in several countries (CY, EE, EL, FI, HU, IE, LT, MT, PL, RO UK), this being seen as an effective way of achieving high commitment and spending early on. In Sweden, this possibility exists for the entire programming period, but has only been used to a very limited extent. However, some countries (e.g. BE) expressed reservations about applying this measure as, with no certainty as to the expected end of the crisis, frontloading might have stored up funding constraints for future projects.

Examples:

In **Finland**, the commitment of Structural Funds was advanced from 2012-2013 to 2009-2010 by increasing the appropriation by 20%. Frontloaded funds are allocated, in particular, to measures for increasing employment and streamlining programme implementation. As a result, the budget was increased by EUR 43.5 million and the estimated appropriation (funds allocated for payments) by EUR 6 million in 2009.

**Hungary** has received additional advances amounting to EUR 407 million, used as pre-financing for beneficiaries. Frontloading of investments has taken place mainly under the Economic Development OP's second priority (SME development), where the absorption rate is very high, and where an OP modification has channelled additional funding from both EU and national contributions (EUR 404 million).

**Lithuania** is using frontloading for integrated urban and rural development, preservation of cultural heritage, nature protection, basic economic infrastructure and the development of TEN-T networks.

– *Extend the final date of eligibility of expenditure for the 2000-2006 programming period to 30 June 2009 (instead of 31 December 2008)*

The Commission extended on request the final date of eligibility for 2000-2006 programmes by six months (12 months for some Greek and 18 INTERREG programmes) to ensure the maximum use of commitments already made. The prolongation of the date of eligibility until the end of June 2009 (or 31 December 2009) meant that expenditure on these programmes could take place until that date. The final date for the eligibility of expenditure refers to payments made by the final beneficiaries, but there is no limit on when the EU can refund this money to the Member States. Thus, in 2010 the Commission can continue reimbursing payment claims for expenses incurred up to 30 June 2009 (or 31 December 2009).

This extension made it possible to address unexpected programme absorption challenges and to achieve the programmes' objectives. It also provided more time for finalising closure procedures. It allowed more (including major) projects to be closed and programme authorities to deal with unexpected financial corrections.

Requests for an extension of the eligibility period were made for 385 programmes (out of a total of 555) in 2000-06, covering all funds. For the ERDF, at the end of 2009, the absorption rate (payments against 7-year commitments) was 93,51%. The budget for 2010 has sufficient payment credits to cover the gap between the 95% ceiling and the 93,51% absorption rate as at 31 December 2009. The same arguments apply to the ESF. For Member States which have not yet reached the 95% level, the unpaid amounts are not lost. However they will be paid only if the Commission receives payment claims for the related amounts.

The measure had a clear impact on the structure and pace of interim payments in 2009. Interim payments per month since 1 January 2009 show a marked increase in the 2007-13 period from September 2009, whereas payments in the 2000-06 period show a decrease from the same period, as shown in the graph below.

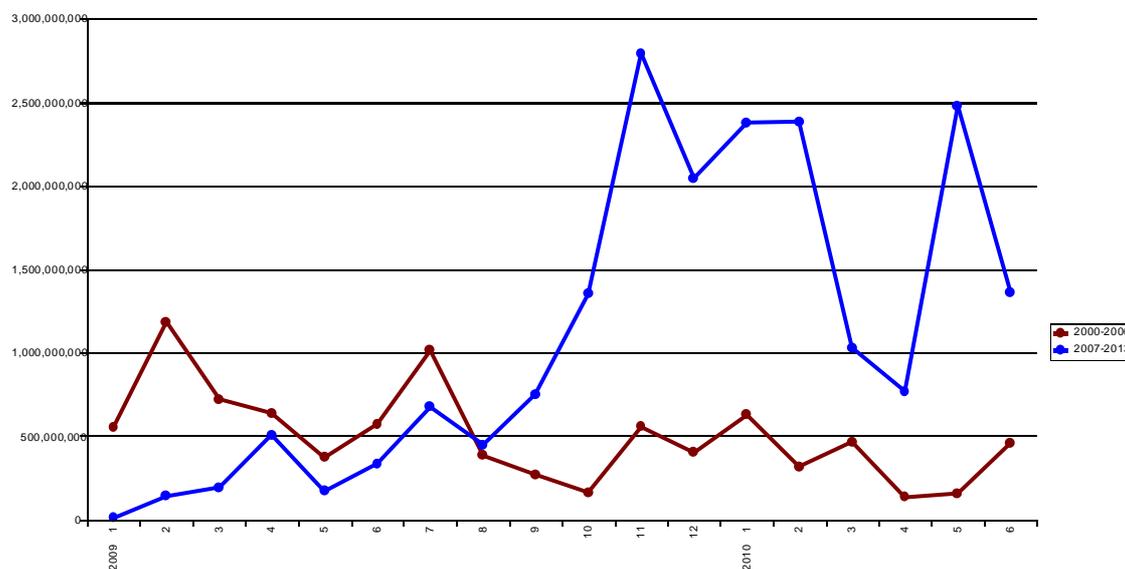


Figure 1 Interim payments per month since 1 January 2009.

The first reason is that during the crisis, the Member States concentrated their efforts to benefit as much as possible from the extended eligibility of expenditure for the 2000-06 period. During the first half of 2009, this was clearly their priority. However the steady work with the Commission during that period had also mobilised resources to move on to the 2007-13 period once the deadline was reached. Then, since September 2009, interim payments went up very strongly.

The deadline for submission of closure documents for the 2000-06 programmes falls between 31 March 2010 (for programmes with no extension of the final date of eligibility) and 31 March 2011. Most closure files are expected by 30 September 2010. So allowing five months for the Commission to examine the documentation, closure of these programmes, including execution of the final payment, will not take place before 2011.

Examples:

Eighteen out of twenty-one **Belgian** Structural Funds Operational Programmes requested and obtained prolongation of the final eligibility date till the end of June 2009. Of the 18 Operational Programmes, one concerned objective 1, seven objective 2, four objective 3, and six programmes concerned Community Initiatives (Urban, Equal, Leader). One programme — Urban Antwerpen — took the opportunity to request a final modification of the programme complement in order to maximise absorption. Overall, extension served to prolong unfinished projects, leading to optimum absorption of credits.

During the extra six months, the **Dutch** managing authorities concentrated on acquiring more declarations of eligible expenditure from the final beneficiaries. Due to delays and administrative

shortcomings, some of these expenses would not have been submitted by the previous cut-off date. This and other efforts during the extra eligibility period will probably lead to higher absorption rates for the programmes. In some cases this may be as much as 5% of the total allocation of the programme.

– *Modify the guidelines on closure of assistance (2000-2006) from the Structural Funds*

The Commission Decision amending the original guidelines on closure of assistance (2000-2006) from the Structural Funds (which had been approved by Decision of 1 August 2006) was adopted on 11 February 2009. The effect was to raise from 2% to 10% the flexibility offered for calculating the final contribution at priority level, based on the financing plan contained in the last decision approved by the Commission.

Under the initial Decision, programmes were unable modify their financial tables after the end of 2006. Now, though, with the flexibility introduced, programmes would be able to submit payment claims reflecting the uptake of funds in the final phase of implementation.

The first closure documents were submitted by Austria, Germany and the United Kingdom in 2009, and for some of these programmes closure has already been accomplished. The vast majority of programmes submitted their closure documents in 2010, some have time to prepare closure documents until 31 March 2011. With very few exceptions managing authorities submitted all the required documents in time.

Example:

For 14 out of 18 programmes, and for three URBAN programmes, the final date for the eligibility of expenditure of Structural Funds had been extended, at the request of **Germany**, until 30 June 2009. The regions appreciated this option offered by the Commission under the Recovery Plan, and they either funded additional projects during that period or replaced certain projects by others, with a view to optimising programme expenditure in the light of a closure procedure due in 2010. As a result of the exercise, the Commission expects a positive effect on the overall quality of programme execution, in physical and financial terms, as measured by key indicators such as jobs created and investment volume co-financed. A number of regions are also going to make use of the ‘flexibility’ offered for each priority, which means that up to 10% (previously 2%) additional expenditure can now be declared for a priority without increasing the total ERDF contribution at programme level.

– *Temporary framework for State aid rules*

On 17 December 2008 under EC Treaty State aid rules, the Commission adopted, in addition to legislative changes, a Temporary Framework<sup>12</sup> providing Member States with additional means to tackle the effects of the credit squeeze on the real economy and to facilitate speedy access to credit by businesses. Member States were also able to use the Temporary Framework as an additional tool to support their regional cohesion policies. Under the Temporary Framework, Member States may grant, under certain conditions and until the end of 2010, a lump sum of aid up to EUR 500 000 per company, guarantees for loans at a reduced premium and subsidised loans, in particular for the production of green products. Risk capital aid for SMEs is increased up to EUR 2.5 million per SME per year. These measures are implemented through schemes which have to be notified to the Commission. All measures are limited until the end of 2010.

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<sup>12</sup> See above footnote 7

This framework facilitates efforts to tackle economic difficulties by helping to ensure sufficient bank lending to companies, by allowing companies with liquidity problems due to the crisis to benefit from temporary relief and by encouraging companies to continue investing, including for the development of green products (meeting environmental protection standards early or going beyond such standards).

The measures under the Temporary Framework can be co-financed by Community funds. As far as cohesion policy measures are concerned, twelve Member States (BE, BG, DE, EE, EL, FI, HU, IT, LV, NL, PT, SK) decided to use some of the Temporary Framework measures proposed by the Commission to enable companies to undertake new investments.

The Operational Programmes co-funded by the ERDF continue to invest in companies by way of either direct grants or financial engineering instruments. Financial engineering instruments have to invest the ERDF contributions only in companies which are in their early stages, including seed capital, or on expansion of those enterprises, and only in activities which the managers of the financial engineering instruments judge potentially economically viable. The ERDF remains essentially a tool for medium and long-term development strategies.

Examples<sup>13</sup>:

**Bulgaria** decided to use the Temporary Framework to provide specific consultancy services to enterprises with financial and economic difficulties. The ‘Competitiveness’ Operational Programme will provide EUR 1 million in 2010 to SMEs through the call for proposals ‘Provision of consulting services for enterprises experiencing financial and economic impediments’. The new measure was sent to Commission services (DG COMP) in July 2010 for approval under the accelerated procedure. It includes consulting services as follows: analysis and restructuring of the company’s activity, such as preparation and development of plans and programmes for recovery of potentially profitable enterprises in the short or medium term; financial management and control activities, such as evaluation of the risks and the critical points of the firm’s activity; and liquidity and profitability analysis of the firm.

**Germany** has also created the ‘Wirtschaftsfonds Deutschland’ offering financing solutions to companies to prevent a ‘credit crunch’. The fund originally had a budget of EUR 115 billion (40 bn for credits, 75 bn for grants), partly using the Temporary Framework and the approved German schemes as a legal basis in EU State Aid law. Fortunately the financing situation for companies turned out to be not as severe as suspected, and up to now about EUR 13 billion have been used. Germany also used the flexibilities of the Temporary Framework to extend export credit insurance facilities for short-term credits relating to exports to EU and OECD countries.

Following the Temporary Framework for State aid rules adopted by the Commission in 2008, **Italy** adopted in 2009 the national framework for centralising the notification of State aids. Following the notification, Italy received authorisation for 5 State aids designed to remedy serious disturbances in the economy. In particular they concern the grant of aid in the form of guarantees and subsidised interest rates, the provision of risk capital and aid for the production of green products.

**Objective 3: to extend the scope of eligible expenditure in strategic areas, such as energy efficiency and renewable energy schemes**

– *Increase the share of energy-efficiency investment*

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<sup>13</sup> Please note that all examples provided are taken from measures that are co-financed by Structural Funds.

From the beginning of the programming period, the ERDF and the Cohesion Fund support investments which improve energy efficiency and promote the use of renewable energy in buildings other than those serving housing purposes in all Member States.

In the context of the Recovery Plan, two amendments to the Structural Funds Regulations have been adopted in order to bring energy efficiency and renewable energy more to the core of Cohesion Policy. These amendments, adopted respectively in 2009 and 2010, expand the scope for energy investments in buildings to the residential sector (previously only allowed in EU12), also in view of supporting social cohesion, and encourage the use of financial engineering instruments in this area.

Following the first amendment, adopted in May 2009<sup>14</sup>, in each Member State expenditure on energy efficiency improvements and on the use of renewable energy in existing housing is now eligible up to an amount of 4% of the total national ERDF allocation, thus adding a potential EUR 8 billion throughout the EU for investments in this area, depending on to what extent the Member States will chose to use these new possibilities<sup>15</sup>. Hence, although there are no additional transfers from the EU budget to the national budgets, by shifting allocations between operations and/or priority axes, ERDF support for energy efficiency and renewable energy interventions in the housing sector can potentially be as much as EUR 8 billion during the 2007-2013 period.

The second amendment, which entered into force in June 2010<sup>16</sup>, encourages managing authorities to make greater use of market instruments, extending the use of financial engineering instruments in this area, such as possible interventions under the JESSICA initiative as part of an integrated urban development plan.

This represents a big shift in thinking, as investments in housing have traditionally not been targeted by Cohesion Policy. From the cohesion perspective, energy efficiency and renewable energy interventions in buildings, including housing, can bring benefits to regions from several different angles: by creating local opportunities for R&D and innovation, building local and regional capacities and creating new and sustainable jobs, by reducing greenhouse gas emissions and improving the local environment, by lowering energy consumption and improving security of energy supply, and by improving the quality of homes, reducing energy costs and alleviating energy poverty.

Fourteen Member States (BE, BG, DK, EL, ES, FR, IT, LT, LV, MT, NL, PL, PT, UK) reported having action in support of energy efficiency and renewable energy investments in the housing sector, following the priorities of the Recovery Plan, with or without modification of the Operational Programmes.

The examples below give a good indication of what has been done at national level.

Examples:

In **France**, the measure has generated a real interest amongst social housing players, including social housing agencies for which the needs for thermal renovation are very important (27% of the total of

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<sup>14</sup> Regulation (EC) No 397/2009 of the European Parliament and of the Council of 6 May 2009.

<sup>15</sup> At the outset, as stated in the Communication on the outcome of the NSRF and OP negotiations, a rather limited allocation of EUR 9 billion was made for energy efficiency and renewable energies, COM(2008) 301 final, 14.5.2008.

<sup>16</sup> OJ L132, 29.5.2010, p.1

rented social housing is currently ranked between E and G categories for energy performance). At national level, a ministerial circular of 22 June 2009 has defined for the managing authorities the conditions for the assistance of ERDF to support operations related to energy efficiency and renewable energies in housing. In almost all French Regions, operational programmes and related financial tables were modified to include this measure. It was also taken into account in the investment plans of social housing agencies. It was decided to use the ERDF assistance for renovation of housing that consumes the most energy. The success of the measure was evidenced by the recent request made by three Regions (i.e. Ile de France, Rhône-Alpes and Provence-Alpes-Côte d'Azur) to increase their participation in this measure while at national level the total ERDF allocation remains under the ceiling of 4%. As an example, for the project of the "redefinition of the island of Burgundy" in Dammarie-les-Lys (Ile de France), EUR 1.18 million ERDF out of EUR 3.9 million is used to increase energy performance from class D to class B with a saving of net charges for tenants in a very poor area. This operation is considered as a model and will enable thermal renovation of 231 social housing.

A modification to the **Lithuanian** Operational Programme 'Promotion of Cohesion' enabled an additional amount of almost EUR 147 million to be allocated to energy efficiency operations in the housing sector. Lithuania makes use of the JESSICA financial instrument to support energy efficiency remedial work. The JESSICA holding fund stands at EUR 227 million, with EUR 127 million coming from the ERDF and EUR 100 million from national co-financing. In June 2010 the EIB, selected the first financial intermediary through which funds will be made available to final beneficiaries and various house-owner associations have announced that they are ready to make use of the instrument and apply for this funding JESSICA will provide long-term loans at a fixed 3% interest rate for all modernisation measures including energy efficiency, e.g. replacing windows and external doors, fitting insulation and installing renewable energy technologies.

#### – *Simplify the reimbursement of expenditure*

For the ERDF and the ESF, the eligibility of lump sum, flat-rate and indirect costs was extended following the recommendation in the European Court of Auditors 2007 annual report calling for simplification and greater use of lump sum or flat-rate payments instead of the reimbursement of 'real costs'.

The main objective of this measure was to simplify the management, administration and control of ERDF and ESF operations by simplifying the documentation required for indirect costs and reducing the workload and number of supporting documents required to justify expenditure.

Concerning the option of flat rates for indirect costs, 15 national schemes have been approved so far by the Commission. The Commission is in the process of re-assessing or awaiting replies from Member States for some 21 ongoing cases. In addition, 13 schemes were received in 2009 for Italy and 12 replies have been sent out. However, not all managing authorities use the option of requesting formal approval of their schemes by the Commission, but nevertheless use a flat-rate system for their indirect costs in line with the ERDF Regulation and Regulation (EC) No 1081/2006 on the European Social Fund<sup>17</sup>.

For the two other options (i.e. standard scales of unit costs and lump sums) the Commission does not provide any ex-ante approval. It should get this information ex-post through the annual control reports submitted by the national audit authorities. At present, the Commission is aware of the development of standard scales of unit costs schemes in Belgium, the Czech

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<sup>17</sup> OJ L 210, 31.7.2006, p. 12.

Republic, Italy, Latvia, Poland, Lithuania and the Netherlands, and of lump sum schemes in France and Lithuania. These new methodologies are just starting to be implemented on the ground.

Although the practical arrangements for applying simplified costs<sup>18</sup> were defined some time after the modification of the ERDF and ESF Regulations the Member States expressed their interest in this simplification measure. Member States see the use of simplified costs as one of the most important innovations in the regulatory amendments and one of the most useful for programme managers. The examples mentioned below, recently approved by the Commission services, demonstrate the will of the Member States to make full use of the options offered by the amended ERDF and ESF regulations.

Examples:

In order to reduce the administrative burden and to help use financial resources more efficiently, **Belgium** (Flanders) has decided to generalise the use of simplified costs. Depending on the type of project and costs the authorities will use standard scales of unit costs for staff (based on national standards), flat rates to calculate indirect costs (i.e. costs which are not directly linked to the project, but which are necessary for its implementation) and, where necessary, real costs to cover other 'non standard' direct expenditure. The method is used in projects to do with training, career guidance, etc. Lump sums are also used where it is possible to define a standard price for operations, for example in the preparatory phase of transnational projects: here, there are clearly defined actions, goals and results (i.e. 3 months to carry out desk research, define the scope of the project and do a baseline study) and based on past experience it is possible to calculate the sum required to obtain these results.

**Denmark** is one of the countries for which the Commission has approved a flat-rate for indirect costs. It is the same flat-rate for the ERDF and ESF Operational Programmes (same managing authority and essentially identical implementation rules), which greatly enhances the simplification for project applicants, the regional and national growth centres, and the managing authority.

In the **United Kingdom**, the Commission approved the method of the Welsh authorities for the use of indirect costs declared on a flat-rate basis for both ERDF and ESF-funded programmes. The scheme entails working out an estimate at the beginning of a project which would then be fixed for its duration.

**Objective 4: to simplify the use of technical support for programme implementation**

– *Facilitate the implementation of financial engineering instruments*

Besides the clear advantages of recycling funds over the long term and their capacity to attract additional funding from the financial sector and private investors, the use of financial engineering instruments<sup>19</sup> provides enhanced incentives to better performance on the part of

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<sup>18</sup> COCOF note on the simplified costs option (No 09/0025/03) of 28 January 2010.

<sup>19</sup> Two initiatives in the area of financial engineering were launched in the framework of Cohesion Policy for 2007-2013: JEREMIE (Joint European Resources for Micro to Medium Enterprises) in co-operation with the EIB/ the EIF, and JESSICA (Joint European Support for Sustainable Investment in City Areas) in co-operation with the EIB and CEB. JESSICA and JEREMIE aim to support national and regional authorities in introducing financial engineering instruments respectively for urban development and regeneration, and to support enterprises, primarily SMEs. A third joint initiative, JASMINE (Joint Action to support Microfinance Institutions in Europe), was launched in 2008 to channel various forms of technical and financial support to non-bank micro-credit providers.

final recipients, including better quality of projects and greater financial discipline, increasing therefore the efficiency and effectiveness of public resources.

The amendment of the General Regulation (Council Regulation (EC) 1083/2006) simplified the use of financial engineering instruments in the framework of cohesion policy, for example by making possible to award contracts directly to the European Investment Bank (EIB) and the European Investment Fund (EIF), thus facilitating the award of holding fund tasks to these institutions and accelerating the setting-up of operations through financial engineering instruments. Additional eligibility flexibility has been introduced in relation to financial engineering schemes, where contributions in kind (non-cash) may be considered as eligible expenditure. This measure is expected to make it easier to set up urban development funds as it can provide the national co-financing required to match the Community contribution. In the United Kingdom this measure has been described as an important breakthrough as regards the possible implementation of JESSICA.

Furthermore, the revision of the Commission Implementing Regulation (EC) No 1828/2006<sup>20</sup> introduced simplified provisions regarding the submission of a business plan by financial engineering instruments to the managing authority or to the holding fund; this can now be replaced by any other appropriate document; additionally, the same enterprise or project may receive a non repayable grant and a loan, equity or guarantees from by the Structural Funds.

Also, in the light of the experience to date, the threshold for management costs in financial engineering instruments was increased by 0.5 % when implemented in outermost regions.

Example:

**Poland** significantly increased the allocations to the JEREMIE and JESSICA initiatives. At national level, Poland has set up a JEREMIE type holding fund through the National Capital Fund (KFK). The projected ERDF allocation is EUR 153 million, total allocation EUR 180 million. The holding fund agreement with KFK was signed in March 2009. Subsequently KFK launched calls for tender for financial intermediaries in 2009 and 2010. The target is to commit the whole available capital by 2011. By the end of September 2010, four Polish regions had decided to implement JESSICA: Wielkopolska, Western Pomerania, Silesia and Pomerania. The Wielkopolska and Western Pomerania regions are the most advanced and shall finalise the selection of UDF (Urban Development Funds) shortly. Both had signed holding fund agreements with the EIB and transferred about EUR 100 million in total to newly created regional holding funds (Wielkopolska — EUR 66.2 million, Western Pomerania EUR 33 million).

To date, five JESSICA schemes have been set up in the **United Kingdom** and are preparing for investment. These are in Wales, London, North West of England, East Midlands, and Scotland. The financial and economic crisis squeezed the cash resources available to regional authorities for providing the necessary national co-finance for JESSICA schemes. This constrained the disbursement of ERDF resources, especially into the EIB managed holding funds that have been set up in London and the North West of England. A solution to this has been found by allowing the use of in-kind contributions (land and buildings) when constituting funds or holding funds (modified Article 56.2 of the General Regulation). Both London and the North West of England used this facility at the end of 2009. As a result the holding funds in those regions are now ready to invest in Urban Development Funds. It is expected that the provision of in-kind contributions will also facilitate and/or assist the implementation of JESSICA schemes in other regions.

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<sup>20</sup> OJ L 371, 27.12.2006, p. 1.

– *Promote entrepreneurship and enhance cooperation with the European Investment Bank (EIB) and European Investment Funds (EIF)*

The know-how to set up projects is a key starting point if business is to benefit from European co-financing and to make rapid progress in project implementation. To speed things up, the Commission with the EIB group has created joint initiatives to enable management authorities and managers of programmes to benefit from powerful expertise and quality in setting up projects and to provide strong financial support for their investments, including a strengthened partnership with the EIB and EIF. This support is particularly valuable in developing programmes with private partners, e.g. developing entrepreneurship or in specific areas such as technological innovation, urban development and regeneration, energy efficiency and the use of renewable energies.

The Commission has encouraged and helped Member States and regions get the most out of the JEREMIE initiative for SMEs, including guarantee, debt and equity instruments, and improving the business environment for micro-credit. The new JASMINE initiative aimed at the development of the micro-credit sector in the EU channels various forms of technical and financial support to non-bank micro-credit providers to promote the availability of micro-credit for entrepreneurs and enterprises in the EU<sup>21</sup>.

The JEREMIE initiative aims at improving access to finance for SMEs via Structural funds interventions, via financial engineering instruments. Use of debt and equity financing brings sustainability to the financing of the SMEs, expertise and additional financial sources from private sector. From the strategic reports it is evident that twelve Member States (BG, CY, DE, EL, ES, FR, HU, IT, LT, LV, SK, UK) have accelerated or expanded their use of this measure, with a clear priority to the JEREMIE instrument in order to support SMEs which are known to have been hardest hit by the crisis, in particular by the credit crunch and the decline in consumption.

By the end of June 2010, 15 Member States were implementing JEREMIE either at national or regional level (BG, CY, ES, FR, GR, HU, IT, LT, LV, MT, PL, RO, SI, SK, UK), with some EUR 3.1 billion committed so far to holding funds from ERDF Operational Programmes. The EIF manages one third of the committed amount via eleven holding fund mandates, while two-thirds are managed by national or regional financial institutions acting as holding funds. Some countries, such as the Czech Republic, Estonia and Sweden, have highlighted the existence of national financial instruments. This situation is likely to evolve as the use of the financial engineering instruments may become more important as the programming period progresses.

The JESSICA initiative aimed at supporting financial engineering instruments for urban development and regeneration, has also attracted substantial interest and positive responses from both Member States and regions and appears to have positive effects on the implementation and efficiency of cohesion policy. By the end of September 2010 nineteen JESSICA funds had been established in eleven Member States (BG, CZ, DE, EE, ES, GR, IT, LT, PL, PT, UK) at either national or regional level. Sixteen of them are Holding Funds and three are Urban Development Funds (Brandenburg, East Midlands and Wales). Fifteen of the

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<sup>21</sup> As a follow up to its Communication 'A shared commitment for employment' (COM(2009) 257) the Commission has proposed a PROGRESS micro-credit facility at EU level. This facility has in the meantime been approved by Council and Parliament and will start its operations in 2010 (see: <http://ec.europa.eu/social/main.jsp?langId=en&catId=836>)

sixteen JESSICA holding funds are managed by the EIB and one by a national financial institution (Kredex in Estonia).

By that date, legal commitments under JESSICA fund agreements exceeded EUR 1.65 billion, thus helping to build up a lasting funding legacy of EU and national public money to be reinvested in the long term in the field of urban development and regeneration.

The EIB has played a crucial role in the recovery plan by providing additional funding. It committed to increasing lending to EUR 70 billion in 2009, EUR 54 billion of which has already been disbursed. The EIB's additional lending activities focus on small and medium-sized enterprises (SMEs), convergence regions and the energy sector.

Examples:

In April 2009, **Cyprus** signed the funding agreement with the EIF to set up the JEREMIE holding fund with a budget of EUR 20 million. The first JEREMIE product was approved in October 2009: 'Funded Risk Sharing' aims to support new SME lending and shares the risk of new SME loans with selected financial intermediaries. SMEs will benefit from loans with a reduced interest rate and collateral obligation. The public contribution to this product is EUR 10 million.

Three JEREMIE funds have already been set up in **Spain** either at national (OP Fondo Tecnológico, ERDF EUR 80.8 million) or at regional level (ERDF OPs Andalucia, ERDF EUR 165 million, and Catalonia, ERDF EUR 25 million). One JESSICA fund is also in operation in Andalucia (ERDF EUR 60 million). The JEREMIE funds have been very welcome for SMEs at a difficult time for access to finance, in particular for innovative projects.

Despite the budgetary constraints at central level, the public co-financing of projects under Structural Funds was considered a priority by the ministry of Public Finance of **Romania**. To avoid any gaps in securing the co-financing, an NSRF co-financing facility was contracted with the EIB, to the tune of EUR 1 billion, funds that will ensure the co-financing by the State Budget of infrastructure investment projects (transport, environment and energy) that are eligible for EU grants under the operational programmes. Romania was also one of the first Member States to use JEREMIE, in February 2008. Of the allocated budget, EUR 65 million is oriented towards portfolio guarantees, and EUR 35 million to venture capital. The Romanian authorities considered JEREMIE a very useful instrument during the crisis period, through its potential mobilising of capital for SMEs in a market featuring a sharp contraction in lending to the real economy, especially for SMEs.

– *Increase the capacity of JASPERS to help Member States to prepare major projects*

The preparation and implementation of major projects is essential for cohesion policy and JASPERS provides expert assistance to improve the quality of projects, to accelerate the approval of EU grant funding and to build administrative capacity in the 12 beneficiary Member States.

The Commission significantly increased the resources available to JASPERS in the Economic Recovery Package by 25% from 2009 onwards. This effort was strengthened by the EIB's decision to increase its contribution to JASPERS by an equivalent percentage.

JASPERS has already made use of the increased resources available to recruit new expert staff. It completed 133 expert reports in 2009 for the beneficiary Member States, compared with 82 in 2008, largely reflecting the input of additional staff, and completed a further 99 in the first nine months of 2010. By end September 2010, 162 applications for assistance which had received assistance from JASPERS had been submitted to the Commission compared to

99 at the end of 2009. Of these applications, 87 had been approved at the end of September 2010 compared to 44 at end 2009. In addition to the increased number of approved applications being generated with JASPERS assistance, these projects were approved significantly more rapidly by the Commission than those which did not receive assistance.

Examples:

The role of JASPERS in the **Czech Republic** is twofold: firstly, to help the Czech authorities with the preparation of major project applications, and secondly, to provide a form of quality control for project applications for which JASPERS was not directly involved in the preparation process. Thus all Czech major projects submitted to the Commission have a minimum quality level assured by JASPERS. JASPERS is currently working with 60 major projects which are still in the pipeline.

**Estonia** has taken advantage of JASPERS in preparing projects in the transport sector, and in healthcare and culture. JASPERS input allowed the rapid processing of major project applications for the healthcare major project — North Estonia Regional Hospital in Tallinn — and gave assurance to Estonia and the Commission on the quality of project preparation on TEN-T corridors. JASPERS has also given assistance in cases where the project is not strictly a major project but is still considered important by the Estonian authorities. Estonia had completed and presented the majority of planned major project applications by early 2010.

The JASPERS office in Vienna (which also covers the Czech Republic, Slovakia, Hungary and Slovenia) has also benefited from the general increase in resources of 25 %, enabling it to reinforce its specialist staff. For example, in **Slovakia**, this has meant that some four FTE transport engineers, one environmental engineer, and two economists have now been assigned to help the national authorities prepare projects for submission to the Commission. This has allowed inroads to be made into pre-existing delays. In total JASPERS has been involved in providing advice on some 24 transport projects, and 23 environment projects in Slovakia. To date eight major project applications have been submitted and four decisions adopted in the transport sector, while the first environment project application was submitted in May this year.

### 3. NATIONAL AND REGIONAL RECOVERY PLANS

As mentioned earlier, the implementation of anti-crisis measures through cohesion policy needs to be seen within the context of broader domestic recovery packages, which may be of more relevance in shaping programme responses. All countries and (often) regional and local authorities had sought to develop responses to the economic crisis, in line with their policy competence and resources.

The boxes below give examples of recovery plans and their inter-relationships with EU cohesion policy at national level (Poland, Portugal and Slovenia), and at regional level (Wales and Lombardy).

#### **National recovery plans in Poland, Portugal, Slovenia and Sweden**

In **Poland**, the government put forward the ‘Stability and Development Plan’ in November 2008 with a view to strengthening the Polish economy and stabilising the banking system. Under the plan, there were various measures, such as: warranties securing the solvency of bank deposits of Poles were increased up to EUR 50 000, equivalent at present to some PLN 210 000 (effective from 13 December 2008); savings in the state budget were made, helping to pinpoint an additional PLN 21.1 billion (under the revised budget); the limit of warranties and sureties granted by the State Treasury was increased to PLN 40 billion, and later to PLN 55 billion, effectively providing broader access to business loans (under the budget bill); home loan subsidies were launched for individuals who,

following redundancy, were unable to repay their housing loans (effective from 5 August 2009); Bank Gospodarstwa Krajowego<sup>22</sup> was recapitalised by PLN 3.7 billion, helping to strengthen the provision of warranties and sureties for small and medium enterprises (effective from 15 May 2009); a higher rate of investment exemption was introduced (up to EUR 100 000) for newly incorporated enterprises (effective from 22 May 2009); limits in obtaining prepayments were abolished, including for businesses applying for EU subsidies (effective from 12 February 2009); expenditure on research was classified as cost deductible (effective from 22 May 2009).

In line with the Recovery Plan, **Portugal** adopted in 2008 and 2009 several measures to stimulate economic activity and to minimise the social costs of the crisis. A national recovery plan, called 'Initiative for Investment and Employment', was adopted following the adoption of the Community plan. The Portuguese plan amounted to EUR 2040 million (corresponding to 1,2% of GDP), including contributions from EU funds of around EUR 740 million (or 0,4% of GDP for 2009). The Portuguese plan centred on five major themes: i) modernisation of schools, ii) promotion of renewable energy and energy efficiency, iii) modernisation of technological infrastructure/broadband networks for the new generation, iv) support for SMEs, and v) support for employment and social protection measures.

The **Slovene** Government adopted national recovery measures in November and December 2008, followed by a second package in February 2009, and revised the annual budget accordingly. The national measures are primarily focused on ensuring the stability of the banking sector, financing and liquidity of companies (guarantee schemes for banks, individual guarantees by the state, recapitalisation of the SID Bank) and co-financing investments in strategic projects in clean or technologically innovative industries (EIB scheme), support to help ease labour market pressures and to promote lifelong learning (support for SME training, subsidies for part-time work) and finally, infrastructure, energy and environment for sustainable development. Some measures are directly linked to the EC recovery package ('de minimis' scheme). The Government foresees a key role for the national development bank (SID).

**Sweden** reacted to the crisis by adopting a wide range of measures aimed at safeguarding the stability of the financial system, maintaining demand by providing stimulus and strengthening long-term growth potential. The measures in the 2009 and 2010 budget bills, together with the effects of the automatic stabilisers, give a total fiscal support to the economy that is among the largest in the EU. In addition to labour market measures, examples of recovery measures include: measures to support the automotive industry (an interesting item here is a loan guarantee facility of up to SEK 20 billion for companies that wish to switch to 'green' technologies) and export companies, measures to ease access to finance for enterprises, lower corporate tax rates, further capital injection in infrastructure budget, increased public resources for R&D and innovation.

### **Regional recovery plans in Lombardy and Wales**

In **Lombardy**, the regional government has put forward an anti-crisis package with measures for both families and businesses. In January, around EUR 20 million was allocated to a 'family bonus' for 2009 for low income families with three or more children (subsequently increased by another EUR 3 million). For the business sector, on the other hand, the regional government came up in October 2008 with a package of measures, entailing the provision of EUR 351 million for innovation and research, easier access to credit, and help to meet the challenges of globalisation. Whilst composed largely of pre-existing measures, not least those funded under the ERDF OP (e.g. JEREMIE, FRIM and Made in Lombardy funds), efforts were made to disseminate the opportunities offered by these measures more widely, particularly through the involvement of business associations, a targeted brochure and a telephone helpline.

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<sup>22</sup> Poland's only state-owned bank, specialised in servicing the public finance sector.

In **Wales**, a series of ‘All-Wales Economic Summits’ were launched in October 2008, bringing together Welsh Assembly Government ministers, civil servants, business groups and trades unions, and providing a focus for counter-recession measures. In support of the summits, the Wales European Funding Office (WEFO) has been examining how they can use the Structural Funds programmes (and improve what they are already doing). This involves looking at the focus of activities within programmes, especially under the Convergence programme, to see where they have flexibility to adjust themes within a priority without reprogramming. The response has included a number of specific projects, including a training measure for employees put on short-time working and offering an alternative to redundancy and the creation of a package of measures to help sustain and encourage new apprenticeship recruitment.

## CONCLUSIONS

At the end of this review of the implementation of the cohesion policy-related measures within the Recovery Plan, and nearly a year and a half after their adoption, it can be stated that the impacts are quite positive.

Most of the measures were implemented rapidly by the Member States and produced valuable effects within a short timeframe to help address with the crisis.

- Some of the measures have provided a response to increased demands for financing by making available additional resources and by accelerating the actual take-up of the Structural Funds by means of advances, intermediate payments for major projects, frontloading, temporary framework for State aid schemes, and the extension of the eligibility date of expenditure (2000- 06).
- Some measures have also helped SME's gain access to finance and promoted active labour market measures, targeting groups most affected by the crisis through the modification of operational programmes and use of the JEREMIE initiative with the support of EIB and EIF.
- Some measures have afforded flexibility on the eligibility of expenditure as for energy-efficiency investment and extended the scope of co-financing to new types of projects.

A few measures still constitute “work in progress” as they need time to fully produce their effects. Their implementation requires some preparatory work (e.g. the use of financial engineering instruments, the simplified costs option and provisions on closure of assistance 2000/06).

In the meantime, the 2010 Strategic Report<sup>23</sup> showed that Member States are making progress on delivering cohesion policy objectives. The bulk of cohesion policy resources (around EUR 230 billion) have been earmarked for investment in the key areas of the growth and jobs agenda. Delivery of the agreed strategies is being put in place at a good pace.

Despite the sharp deterioration in the socio-economic landscape between autumn 2008 and 2009, the Strategic Report indicates a strong commitment to implementing the original programme aims. On average across the EU, more than 27 % of funding for the 2007-2013

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<sup>23</sup> Commission communication ‘Cohesion policy: Strategic Report 2010 on the implementation of the programmes 2007-2013’- COM(2010) 110, 31.3.2010.

period has already been allocated to specific projects — amounting to an investment of more than EUR 93 billion. Although the report suggests that progress has been positive in important areas such as Research & Development, innovation, lifelong learning and active labour market policies, it also indicates that more should be done to accelerate project implementation in the rail sector, in key energy and environment investments, in the digital economy, and in support of social inclusion.

While cohesion policy is a long-term policy addressing structural and development needs, it has demonstrated its flexibility in the legal framework in ensuring that all cohesion policy resources are fully mobilised to support domestic recovery efforts — even providing decisive help in breaking the vicious circle of liquidity crunch.

Despite differences in the choice of measures at the national level, the strategic reports show that all the measures have been used, albeit in different combinations. This confirms how the Recovery Plan was welcomed by the Member States<sup>24</sup>. On the whole, these measures were seen as a positive move that provided the necessary means for accelerating regional policy investment and easing implementation obstacles. The measures were flexible enough to allow Member States to choose and implement those best suited to their specific national and regional environment in recognition of the fact that there is no one-size-fits-all solution.

Recovery measures also helped to revive and improve cohesion policy implementation mechanisms by simplifying certain aspects of the preparation and management of projects. Although adopted under exceptional circumstances, some of these simplification measures were designed not only to react to the crisis but also to put in place a framework which would also be appropriate during the programming period in a post-crisis Europe. The measures introduced were also a response to a general call for an overall simplification of the management of structural and cohesion funds. They should therefore serve as examples for further simplification at EU level and at national and regional levels.

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<sup>24</sup> Even at an early stage: see the IQ-Net Review Paper No 24 of May 2009 on ‘Programme implementation in times of economic crisis’ from European Policies Research Centre — page 12.