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Answer given by Mr Hahn
on behalf of the Commission
(31.1.2011)

The Commission welcomes the Financial Times' scrutiny as part of a public debate about the efficiency and effectiveness of cohesion policy. The Commission is aware of the habitual slower take-up at the beginning of a programming period. The most recent data shows, however, that the Commission made more cohesion policy payments in the 4th quarter of 2010 than ever before. The vast majority of the payments made were interim payments, meaning that they are reimbursements of expenditure already made and certified in the Member States. This indicates that, as has been seen in previous programming periods, cohesion policy spending 'on the ground' is increasing as the programming period progresses. The absorption (in terms of EU payments to Member States) is now at 21% for the Cohesion Fund, 22% for the European Regional Development Fund (ERDF) and 23% for the European Social Fund (ESF).

The most important reasons for slow absorption so far can be summarised:

- an option to extend the closure of 2000-2006 programming period was provided to the Member States (in order to combat the financial and economic crisis); therefore, Member States concentrated efforts on closure and absorption of the 2000-2006 allocation
- in some cases, a late adoption of the programming documents for 2007-2013 period
- the financial crisis and the lack of adequate co-financing (some Member States are cutting public budgets and focusing resources on the most essential public services)
- a lack of simplicity with the regulations and implementation rules.

To deal with this situation, the Commission has adopted a number of initiatives aimed at simplifying rules which should help to facilitate access to the funds and accelerate investment flows. For example, the Commission implemented measures that made it possible to bring forward to 2009 EUR 6.3 billion of payments, in the form of additional advances, to add to the EUR 23 billion in advances already paid out (in the years 2007 to 2009). This front-loading of resources has helped to tackle immediate cash flow problems at a time when public budgets are under pressure.

The Commission is also making significant efforts to try to accelerate implementation, by investing in training and capacity building of national, regional and local officials, and further simplifying procedures. The Commission keeps close bilateral contacts with the managing authorities and encourages them to improve implementation, especially with regards to automatic decommitment targets or the preparation of strategic investment projects.

The Member States themselves carried out a number of actions to improve the implementation of cohesion policy programmes. The Commission elaborated a detailed summary of the measures[1] which is based on the documents provided by the Member States in their 2009 national strategic reports.

As regards support provided to multinational and large companies, the Commission underlines that a primary objective of cohesion policy is growth and the creation of new jobs in particular regions and Member States. Any support for productive investment has to be seen in this context. Promoting job creation and economic growth can be achieved in many ways - from the setting up of small enterprises to supporting larger companies. Cohesion policy interventions support productive investment which is primarily targeted at small and medium-sized enterprises (as specified by the ERDF and ESF regulations). The Commission also stressed the role of small and medium-sized enterprises during the negotiation of current programming documents. However, there may be cases

[1] SEC(2010) 1291 final of 25.10.2010 - ‘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

where co-financing is granted to larger companies provided this complies with the objectives of the funds and the programmes concerned. For example, the ESF can support actions in Member States aimed at designing and disseminating innovative and more productive forms of work organisation, including better health and safety at work. ESF support should also be available in large and small enterprises if it helps to improve the working conditions of workers.

Multinationals are not the beneficiaries of the support by the ESF – the workers are the ones receiving the training co-financed. The ESF supports people by providing training, retraining and improving skills to prepare and help them finding a job. A worker engaged in a given enterprise may well find himself/herself engaged in another company. What matters is to sustain the inclusion of skilled workers in the labour market and not the name or type of enterprises providing the training.

In general, the majority of productive investment and investment in the development of endogenous potential is targeted at SMEs. Cohesion policy has allocated some EUR 55 billion between 2007 and 2013 to business support, of which a large share supports innovation directly in SMEs.

In a spirit of subsidiarity, it is up to the Member States to select projects which would contribute to reaching the programme's objectives. It is up to the managing authorities to carry out a fair and transparent selection of the most suited projects. The Commission ensures that the Member States respect the legislation in force.

The Commission considers that from a policy perspective firms should not receive European funding for investments which would lead to the loss of employment by the same company in another region of the EU, as the net effect of the funds investment might be zero or even negative.

Where cohesion policy support is provided for investment by a company, that subsequently closes the supported project within five years – or three years in the case of SMEs - of having received European funding, those funds have to be paid back. In a number of programmes provisions were introduced at the time those programmes were negotiated with Member States that exclude larger or all companies from receiving ERDF support in case of delocalisation. In cases where there is a suspicion that there are irregularities in the use of Structural Funds, the Commission starts investigations.

The Commission is monitoring that the eligibility rules for co-financing projects are respected. Further investigations for example in the case of an investment by ABF International in Poland will be carried out by the Commission to ensure that the rules and the legislation are applied in this matter. In order to monitor restructuring of companies on a European scale the Commission cooperates with the European Foundation for the Improvement of Living and Working Conditions based in Dublin.

As regards the access of organised crime to the budget of cohesion policy, it is clear that companies which are found to have acted illegally can not keep subsidies, including European funding. Each payment claim submitted to the Commission for reimbursement states that the expenditure covered by that claim has been "lawful".

To increase the transparency for the EU citizens, all beneficiaries of cohesion policy projects have to be published now by the member states. The Commission has created a central portal to the websites that includes links to the list of beneficiaries from member states:
http://ec.europa.eu/regional_policy/country/commu/beneficiaries/index_en.htm

The Commission would like to assure the Honourable Members that the legality and regularity of expenditures is crucial. The Commission is committed to ensuring the robustness of management and control procedures. It adopted and implements an Action Plan to strengthen the Commission's supervisory role in structural actions and this has contributed to a reduction of the error rate to 3% down from 11% in the past two years as stated by the Court of Auditors.

Finally, the 5th Cohesion Report[2], which is in public consultation until end of January 2011, makes several suggestions, among other things, on how to improve the delivery and control mechanisms of cohesion policy for the next programming period.

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[2] COM(2010) 642