



Council of the  
European Union

Brussels, 24 March 2017  
(OR. en)

7661/17

FSTR 20  
REGIO 31  
SOC 225  
AGRISTR 28  
PECHE 123  
CADREFIN 35  
BUDGET 4

#### COVER NOTE

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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	23 March 2017
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2017) 138 final
Subject:	COMMUNICATION FROM THE COMMISSION Ex-post verification of additionality 2007-2013

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Delegations will find attached document COM(2017) 138 final.

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Encl.: COM(2017) 138 final



Brussels, 23.3.2017  
COM(2017) 138 final

**COMMUNICATION FROM THE COMMISSION**

**Ex-post verification of additionality 2007-2013**

## 1. INTRODUCTION

Additionality is a principle of the European Union's cohesion policy aiming to ensure that the Structural Funds<sup>1</sup> complement but do not replace equivalent public expenditure of a Member State.

Article 15 of Council Regulation (EC) No 1083/2006 specifies that the Commission should verify additionality in the Convergence objective in cooperation with each concerned Member State by the end of 2016 and should publish the results of this exercise. Although, under the regulations, Croatia has an additional year for this verification process, the Croatian authorities decided to submit all documentation one year early.

This report therefore closes the verification of additionality for the 2007-2013 programming period, after the ex-ante and the mid-term verifications carried out in 2007 and 2011-2012 respectively.

Additionality is considered to be respected if the average structural expenditure<sup>2</sup> by the Member State over the period 2007-2013 was, in real terms<sup>3</sup>, at least equal to the level determined at the beginning of the period, or the level revised at the mid-term verification in 2011 and 2012 ('the baseline') to take account of the significant changes in the economic situation<sup>4</sup>.

This report summarises the results of the ex-post verification carried out in 2016 for the whole programming period 2007-2013<sup>5</sup>. Compliance with additionality in this period has been probably the most challenging until now; it refers to the years of the worst economic downturn that the EU has witnessed in several decades. The significant decline of the economic activity which started in 2008 had a profound impact on public finances in Member States and gave rise to stringent fiscal consolidation plans aimed principally at ensuring the sustainability of public finances. The result was a significant decline of public investment<sup>6</sup>.

The ex-post verification has led to three main findings:

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<sup>1</sup> Additionality only concerns the European Regional Development Fund (ERDF) and the European Social Fund (ESF). The Cohesion Fund is not considered.

<sup>2</sup> As referred in the Working Document N° 3 of the Commission of December 2006, *'the eligible national public expenditure covers all public or equivalent structural spending originating from the budget of the State, regional or local authorities which could benefit from Structural Fund aid even if only part of this expenditure is in fact co-financed by the Structural Funds'*.

<sup>3</sup> Expressed in 2006 prices.

<sup>4</sup> Article 15 specifies that *'the Commission, in consultation with the Member State, may decide to modify the required level of structural expenditure if the economic situation in the Member State concerned has significantly changed from the one existing at the moment of the determination of the level of public or equivalent structural expenditure [decided at the ex-ante verification]'*

<sup>5</sup> Article 15 also specifies that *'the Commission shall publish the results by Member State of the verification of additionality, including the methodology and sources of information, after the conclusion of each of the three stages of verification'*.

<sup>6</sup> Public investment is the gross fixed capital formation of the general government (P.51g in the European System of Accounts 2010).

First, the aggregate level of structural spending by Member States in the convergence regions in 2007-2013 (EUR 94.4 billion on annual average 2007-2013) was some EUR 1.2 billion lower than the level set ex-ante (EUR 95.6 billion) and EUR 13 billion higher than the aggregate level set at the mid-term (EUR 81.4 billion), notwithstanding some significant differences across Member States. Overall, the highest gaps are concentrated in the Member States most hit by the economic downturn and the crisis of public finances.

Second, all Member States except Greece complied with their additionality baselines for 2007-2013, either those originally set at the ex-ante verification in the respective National Strategic Reference Frameworks (NSRF) or those revised at the mid-term verification. Six Member States are below the baseline set at the ex-ante verification but above the final baseline (Czech Republic, Germany, Italy, Lithuania, Hungary and Portugal), as a result of the downward revision decided at the mid-term verification.

Third, the ex-post verification confirmed the shortcomings of the method for verifying additionality, already identified at the mid-term verification. The volume of the information to be submitted is a significant burden for Member States and presents verification difficulties for the Commission because of problems of comparability between the various methods used by Member States to verify additionality and the official statistics available in the EU. These are some of the reasons why the verification of additionality for the 2014-2020 period has been substantially simplified and aligned with the economic governance of the EU. Additionality, albeit revised, remains a key element of the architecture of cohesion policy for the 2014-2020 period to encourage growth-enhancing investments.

## **2. THE ECONOMIC CONTEXT IN THE 2007-2013 PROGRAMMING PERIOD**

The implementation of cohesion policy in 2007-2013 took place in the most difficult economic context since EU cohesion policy was introduced. Real GDP in 2013 in the EU was still lower than in 2007 due to the major impact of the economic downturn which started in 2008 and intensified later. Annual GDP<sup>7</sup> growth was negative in 2009 (-4.4%) and 2012 (-0.5%) and close to stagnation in 2008 (0.4%) and 2013 (0.2%). The average annual GDP growth expected for the EU-27 in the period 2007-2009<sup>8</sup> at the time of deciding the baselines was 2.6%, which compares to an observed rate of -0.3%.

The economic downturn led to a sharp deterioration of the labour market. The harmonized unemployment rate in the EU28 witnessed a steady increase from 7% in 2008 to 10.9% in 2013. The impact on the labour market was particularly serious in the Member States most hit by a contraction of economic activity. For instance, the unemployment rate increased from 7.8% in 2008 to 27.5% in 2013 in Greece and from 8.2% in 2007 to 26.1% in 2013 in Spain. There was also a significant deterioration of social conditions in the EU as a whole and in some Member States in particular. The share of people at-risk-of-poverty and social exclusion increased from 23.7% in 2008 to 24.5% in 2013 with some Member States exceeding significantly the EU average at the end of the programming period (e.g. 48% in Bulgaria, 41.9% in Romania or 35.7% in Greece).

The contraction of economic activity and the deterioration of the labour market and social conditions gave rise to increasing pressure on public expenditure. It rose sharply in

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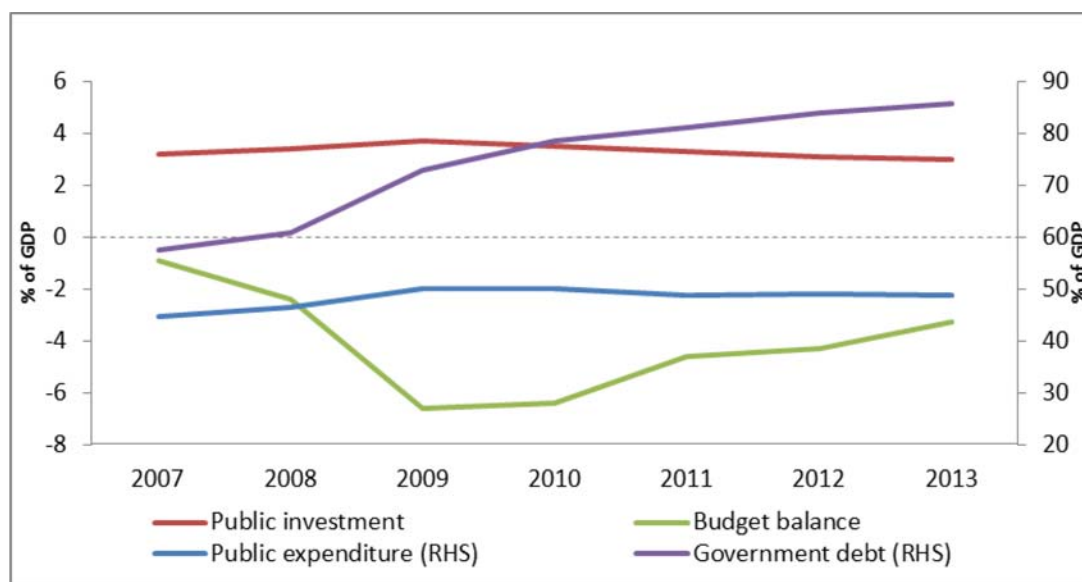
<sup>7</sup> Source: Eurostat, extraction date 31<sup>st</sup> January 2017.

<sup>8</sup> Autumn Economic Forecasts of the European Commission, 2007.

2008 and 2009 up to an EU average general government total expenditure-to-GDP ratio of over 50% of GDP in the EU, the highest since 1995. This was mostly the effect of automatic stabilisers, which explain also why government revenues did not increase at all; actually, the main source of government revenue (taxes and social contributions) decreased in absolute terms.<sup>9</sup> Automatic stabilisers are usually defined as those elements of fiscal policy which reduce tax burdens and increase public spending without discretionary government action. They provide, for instance, income replacement immediately when unemployment starts to rise. The increase in the government spending-to-GDP ratio is actually mostly reflected in social protection expenditure, which was from 2009 onwards around 2.5 percentage points of GDP higher on average than pre-crisis levels. The increase in social protection expenditure was even higher in some Member States most hit by the contraction of GDP. The increasing burden of Government debt interest was also significant in these countries, over 2 percentage points of GDP compared to pre-crisis levels in some of them.

The result of the mounting pressure on government expenditure and the stagnation of government revenue was a sharp increase in the deficit-to-GDP ratio in most Member States. It peaked at an EU average of -6.6% in 2009 from -0.9% in 2007 and was still above -3% (-3.3% of GDP) in 2013. More than 20 Member States were under the Excessive Deficit Procedure, the corrective arm of the Stability and Growth Pact, in 2010. General government gross debt increased from 57.6% in 2007 to 85.7% of GDP in 2013 in the EU. These trends raised some concerns about the sustainability of public finances for some countries, which translated in some cases into external financial assistance from European and international institutions conditional on the implementation of economic adjustment programmes.

**Figure 1: Public expenditure and public investment and Government deficit and debt**

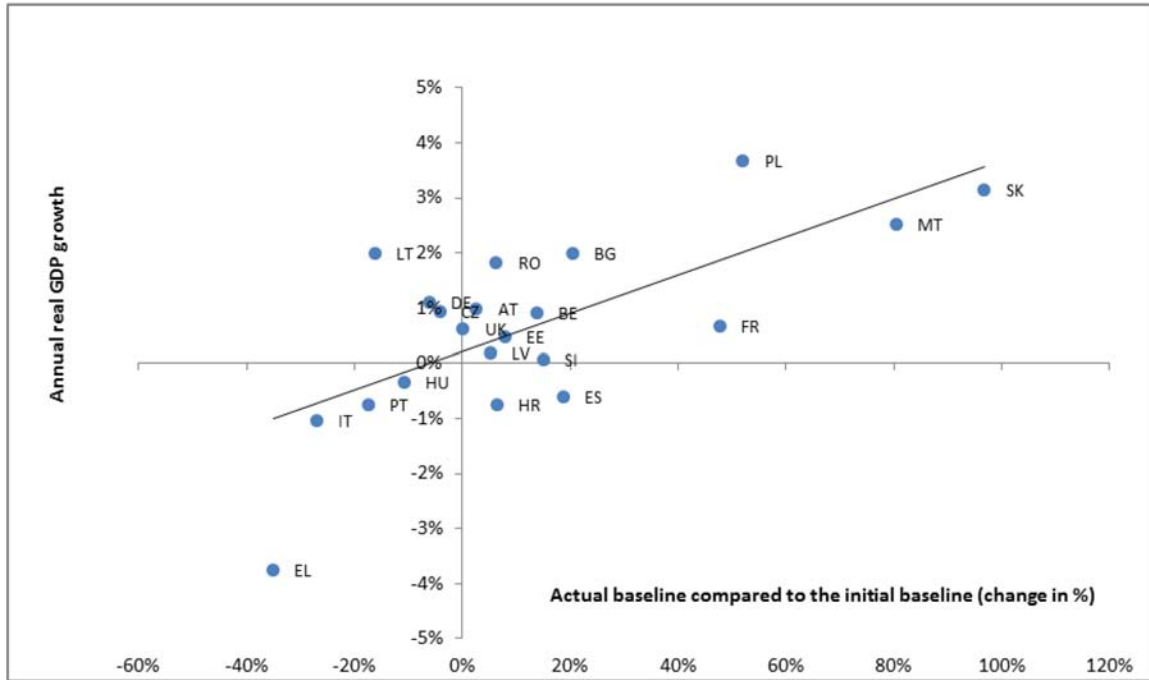


The increase of public expenditure-to-GDP did not imply higher public investment in the EU over the whole programming period. On the contrary, public investment dropped significantly in the Member States most hit by the contraction of economic activity and the crisis of public finances. These are, in general, the Member States with the highest departures from the initial baseline (Figure 2, X axis). Public investment was by far the expenditure item suffering from the highest contraction even after the economic recovery

<sup>9</sup> In line with tax revenue also playing a role as automatic stabiliser.

packages decided both at European and national levels to counter the adverse impact of the fall of GDP and employment during the first years of the crisis. This fact explains why some Member States comply with additionality without reducing the baseline at the time of the mid-term verification and despite a significant decline in public investment during the second part of the programming period.

**Figure 2: Difference between ex-ante baseline and ex-post structural expenditure (X axis) and average GDP growth 2007-2013 (Y axis)**



Source: Eurostat and Commission calculations

### 3. THE PROCESS OF EX-POST VERIFICATION FOR THE 2007-2013 PERIOD

The 21 Member States concerned by the verification of additionality (those with at least one Convergence region in the 2007-2013 period) had to submit the necessary information and corresponding tables with final data by 31 January 2016. This was done, although some Member States submitted the information late, in some cases by several months.

Once submitted by the Member States, the Commission checked the consistency of that information with public investment trends observed in the Classification of the Functions of Governments<sup>10</sup> (COFOG), which is provided by Eurostat in accordance with the European system of accounts (ESA 2010). In some cases, the Commission also used publicly available information on national expenditure or specifically requested additional information from national authorities in various bilateral exchanges. For example, the Commission required national authorities to provide further clarification regarding data and methodologies used to calculate spending in specific categories of expenditure or to provide additional information regarding structural expenditure by region or in public corporations. This process enabled the resolution of most discrepancies and led in several cases to an amendment of the level of expenditure initially proposed to the Commission (e.g. for Bulgaria, Spain, Latvia, Hungary, and Poland).

From a methodological point of view, determining the structural spending by a Member State has been a difficult task, as was already found at the mid-term stage of verification. From the side of Member States, it entailed collecting and aggregating 'ad hoc' data on public investment by thematic area and by the various levels of government, including the isolation of expenditure in some regions when just some part of the country was eligible to the Convergence objective. The methodology proposed by Member States was often used just for the purpose of verifying additionality. From the Commission side, the major obstacle was the comparability between the non-harmonised data provided by Member States and those available in official European statistics, for which no regional distinction has been foreseen for general government data. The verification of expenditure by public corporations was also problematic as it is not captured in a harmonised way. In those cases, the Commission asked the Member States to provide public reports certified by internal or external audits.

Another problem encountered in some Member States (e.g. Poland) was the changes by the Member State in the methodology used to identify the expenditure relevant for additionality. The improvements introduced in the systems to better capture the relevant spending do not enable the full comparability of the relevant spending across various programming periods.

In addition, the differences in methodologies for calculating structural expenditure across Member States make their comparability difficult and may introduce some significant bias in the assessment by the Commission. The way Member States record and classify expenditure for the purpose of additionality varies considerably from one to another.

The various exchanges between the Commission and the Member States allowed providing significant assurance on the reliability and consistency of the information

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<sup>10</sup> The Classification of the functions of government, abbreviated as COFOG, was developed in its current version in 1999 by the [Organisation for Economic Cooperation and Development](#) and published by the [United Nations](#) Statistical Division as a standard classifying the purposes of government activities.

provided for the verification of additionality. Once the level of actual expenditure and the methodology used was agreed between the national authorities and the Commission, the Commission communicated the result by letter to the Member States concerned.

#### 4. STRUCTURAL SPENDING IN CONVERGENCE REGIONS IN 2007-2013

The results of the ex-post verification are summarised in Table 1, which compares the ex-post level of average annual structural expenditure in 2007-2013 with the baseline agreed ex-ante or the one revised at the mid-term verification. The average annual structural spending (EUR 94.4 billion), expressed in 2006 prices, was on average some 1% lower than initially estimated (EUR 95.6 billion) but some 16% higher than the aggregate sum of the baselines as revised at the mid-term verification (EUR 81.4 billion). This positive difference is mostly due to structural spending by Member States, whose baseline was not revised at the mid-term verification, suggesting that the reduction of the baselines in ten Member States was both balanced and realistic.

**Table 1: Reference levels and actual structural spending<sup>11</sup>**

Member State	Reference level ex-ante average 2007-2013	Reference level mid-term 2007-2013	Actual spending 2007-2013
Belgium	1,128	1,128	1,284
Bulgaria	919	919	1,108
Czech Republic	2,549	2,271	2,450
Germany	16,504	14,562	15,538
Estonia	1,316	1,276	1,421
Greece	8,661	6,125	5,628
Spain	13,973	13,973	16,599
France	1,815	1,815	2,684
Croatia	818	818	871
Italy	20,613	13,860	15,076
Latvia	971	770	1,023
Lithuania	755	598	634
Hungary	3,330	2,828	2,976
Malta	107	107	193
Austria	139	139	143
Poland	7,940	7,940	12,080
Portugal	3,946	2,637	3,268
Romania	4,773	4,773	5,077
Slovenia	957	957	1,103
Slovakia	876	876	1,723
United Kingdom	3,495	3,072	3,505
<b>Total</b>	<b>95,585</b>	<b>81,444</b>	<b>94,383</b>

Note: annual average in Million EUR (2006 prices)

There are however significant differences across Member States when comparing the ex-ante and ex-post baselines. For example, the actual structural spending for 2007-2013 was 35% lower than the ex-ante baseline in Greece. The variation is over 25% in Italy and between 10% and 20% in Hungary, Lithuania and Portugal. In contrast, the actual structural spending for 2007-2013 was significantly higher than the initial baseline in some Member States, with amounts as high as 97% in Slovakia, 80% in Malta or more than 50% in Poland. There is a significant correlation between structural spending and the impact of the economic downturn in the Member State. Lower spending than

<sup>11</sup> Data submitted by Member States for the purposes of additionality, in some cases modified in agreement with the Commission.



expected is mostly concentrated in the Member States most hit by the crisis. Spain is the main exception to this, because of the high levels of spending up to 2010, including two economic recovery packages adopted to counter the effects of the economic downturn.

Structural spending by Member States tended to decline in the second half of the programming period. The highest levels of structural expenditure are actually observed in the first three years of the period (until 2009); they start to decline in 2010 and then significantly so as from 2011 with the downturn of economic activity and the mounting pressure on public finances. For this reason, some Member States asked the Commission to lower their baselines at the mid-term verification of additionality, as envisaged in the legal framework, with a view to bringing them more in line with the significant change in the economic situation. The Commission decided finally to reduce the baseline for ten Member States<sup>12</sup>. The baselines were reduced by at least 20% in five Member States (Greece, Italy, Latvia, Lithuania and Portugal) and by at least 10% in other four (the Czech Republic, Germany, Hungary and the United Kingdom).

The structural expenditure relevant for additionality includes the co-financing by national governments within the European cohesion policy framework. Out of the EUR 94.4 billion of average structural spending per year, some EUR 9.7 billion corresponds to the national co-financing of projects carried out in the framework of cohesion policy. The highest shares are found in Portugal and Poland, where the national co-financing accounts for some 25% of the total structural spending financed by the Member State. As regards EU funding, the total spending by the ERDF and the ESF has been some EUR 21.4 billion, which accounts for around 18% of the total structural spending when considering both EU and national financial sources (EUR 117 billion). This share is over 40% in countries like Lithuania or Portugal. The average share of the ERDF and the ESF tended to increase over the last years of the programming period because of the decline of structural spending by Member States.

The structural spending executed in the whole programming period amounts to EUR 819 billion when including both national funding and the Structural Funds. This sum accounts for around 4.2 % of GDP of convergence regions and some 2% of the total public expenditure of the 21 Member States concerned by additionality in the same period.

When comparing results with the previous programming period (2000-2006 or 2004-2006), structural spending increased by 2% despite the impact of the economic downturn. This is mainly due to the growth in structural spending in the Member States which joined the European Union in 2004 or afterwards (30% increase in all of them except in Czech Republic, Lithuania and Hungary in which structural spending decreased). Structural spending also fell in Germany, Greece, Italy and Portugal as a result of the effect of the economic downturn and some exceptional expenditure of the period 2000-2006 (e.g. the 2004 Olympic Games in Greece and the expenditure related to reunification in Germany).

## 5. CONCLUSIONS

The 2007-2013 programming period was characterised by a strong deterioration of the economic context and social conditions. GDP growth was below expectations and both the unemployment rate and the share of people-at-risk of poverty and social exclusion increased significantly in some Member States. Compliance with additionality was

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<sup>12</sup> Communication from the Commission. Results of the mid-term verification of additionality 2007-2013.COM(2013)104 final.

challenging in that context because of the increasing pressure on social expenditure, notably in the Member States most hit by the downturn, and because of the fiscal consolidation measures taken to ensure sustainability of public finances. These are some of the main reasons explaining why some Member States proposed a reduction of the baseline initially set in the NSRF at the ex-ante verification.

In general, compliance with additionality is mostly explained by the higher levels of expenditure undertaken during the three first years of the programming period, either because it was before the start of the financial crisis in 2008 or because of the exceptional expenditure made under the economic recovery packages adopted to counter the adverse effects of the sudden economic downturn. Structural spending then declined significantly in most Member States during the second half of the programming period. This is fully in line with the trends for public investment observed in the data released by Eurostat.

All Member States complied with additionality except Greece. Six Member States complied with additionality because of the downward revision of the baseline at the mid-term verification in 2010. In the rest, structural spending was above the level set at the ex-ante verification.

The legal framework provides that the Commission may make a financial correction in case of non-compliance with additionality by cancelling all or part of the Structural Funds contribution to the Member State concerned<sup>13</sup>.

Non-compliance with additionality in Greece is due to the strong and unexpected deterioration of the economic context, with real GDP falling by more than 25% between 2007 and 2013, and not to deliberate economic policy decisions of the Greek governments. Greece has been under external financial assistance since 2010 and subject to three successive economic adjustment programmes, which in redressing the overall economic situation in Greece has to include measures related to the reduction of public investment with a negative impact in its ability to comply with additionality. The quarterly reviews of the economic adjustment programmes have been considered positive by the Commission. In these circumstances, imposing a financial correction is not appropriate.

The process of ex-post verification of additionality for 2007-2013 has been confronted with the weaknesses that led to the substantial reform of the methodology for the period 2014-2020. The verification exercise required considerable resources from both for Member States and the Commission. The consistency between the non-harmonised data submitted by Member States and those available under the COFOG classification of expenditure has not been easy to ensure, not least because there is no alignment with EU economic governance of the former. The changes made by some Member States in their methodology, albeit positive because they tend to capture better the expenditure relevant for additionality, have been an element of difficulty when comparing expenditure across programming periods.

This report closes the verification of additionality for the 2007-2013 programming period.

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<sup>13</sup> Article 99 of Regulation (EU) No 1083/2006.