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NOTE

From:	Presidency
To:	Permanent Representatives Committee/Council
No. prev. doc.:	15788/17 and 15804/17
No. Cion doc.:	COM(2017) 755 final
Subject:	Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Strategic report 2017 on the implementation of the European Structural and Investments Funds - Examination by the Council

1. On 13 December 2017, the Commission presented to the Council the strategic report under Article 53(2) of the 'Common Provisions Regulation'[1]. This strategic report summarises the implementation and progress reports of Member States for the European Structural and Investment (ESI) Funds in the period 2014-2016.

[1] Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

2. Pursuant to Article 53(3) of the 'Common Provisions Regulation', the Working Party on Structural Measures held, on 11 January 2018, a debate on the report.

3. At that occasion, the Presidency informed Member States of its intention to take up aspects covered by the strategic report in draft Council conclusions on delivery systems and implementation of cohesion policy post-2020, to be tabled later in January for discussion in the Council.

4. The Presidency therefore wishes to inform the Council via Coreper that the requested debate was held.

ANNEX

EUROPEAN
COMMISSION

Brussels, 13.12.2017
COM(2017) 755 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS

Strategic report 2017 on the implementation of the European Structural and Investment Funds

{SWD(2017) 452 final}

INTRODUCTION

The main purpose of the European Structural and Investment Funds[2] ('ESI Funds') is to foster lasting socio-economic convergence, resilience and territorial cohesion. The Funds deliver a critical mass of investments in priority areas of the EU through shared management between the Commission and the Member States. By supporting job creation, growth and investment, strengthening the Single Market, the Energy Union and economic governance these investments respond to the needs of the real economy. The Funds also greatly help the EU achieve its political objectives by translating them into action on the ground.

This Report[3] provides the first strategic overview of the implementation of the 2014-2020 ESI Funds programmes which run until the end of 2023. It summarises Member States' implementation and progress reports[4], covering the years 2014 to 2016. It is therefore focused on the progress of implementation as evidenced by the data on selected projects. The accompanying Staff Working Document provides more details.

The ESI Funds provide a stable, long-term investment framework for Member States and their regions. With a budget of EUR 454 billion for 2014-2020, the ESI Funds are the EU's main tool for investment. National public and private co-financing is expected to reach at least EUR 184 billion, bringing total investment to EUR 638 billion. The ESI Funds also help Member States to improve the investment environment. This includes supporting structural reforms to mobilise private capital and introducing ex-ante conditionality.

[2] The European Structural and Investment Funds (ESIF or ESI Funds) are: the Cohesion Fund, the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF).

[3] As provided for in Article 53 of Regulation (EU) No 1303/2013 (OJ L 347, 20.12.2013, p. 320).

[4] These reports provide data as of the end of 2016 and were sent by the end of June 2017 for the annual implementation reports and August 2017 for the Progress Reports.

The current generation of programmes has incorporated significant reforms and more funding than ever before is now concentrated in areas of highest EU value added, such as employment, social inclusion, skills, research and innovation, the environment or the low-carbon economy[5]. The Funds also help authorities and stakeholders to think EU wide or even globally when acting locally. This leads to better strategic planning and a greater capacity to deliver.

Looking at the first three years of the 2014-2020 programmes, initial achievements[6] are appearing. Around 2 million projects have been selected all over Europe, amounting to EUR 182 billion or 28.4 % of the total financing available for the period. 793 490 businesses are being supported and 7.8 million people have been helped so far in their search for a job, training, or education. About 20 % of the total agricultural area is covered by climate and environment related actions following investments to improve biodiversity, soil and water management.

The Member States' reports highlight that the number of projects selected in 2016 rose sharply, indicating that Member States are reaching full speed in turning the ESI Funds into concrete results and improving people’s lives in Europe. Investment is progressing well in many of the areas targeted as a priority for the EU with, for instance, 31 % of the total planned investment in competitiveness of Small and Medium-sized Enterprises (SMEs) allocated to projects. The Member States also report a number of areas where progress is slower and therefore follow-up is required, such as for investments in information and communication technology.

By the end of 2016, 9 % of the total available funds for the period were paid to Member States from the EU budget. Recent reports indicate **stronger progress in 2017, with 44 % of funds allocated to projects and 13 % of payments by the end of October 2017**. Payments are expected to further accelerate in the coming months.

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5 COM(2015) 639 final presents the main results of the discussions on the 2014-2020 programmes.

6 All data are end of 2016 unless indicated otherwise.

1. A CHALLENGING, DIVERSE AND FAST CHANGING CONTEXT

1.1. A gradual recovery from the crisis – progress towards cohesion objectives regaining momentum

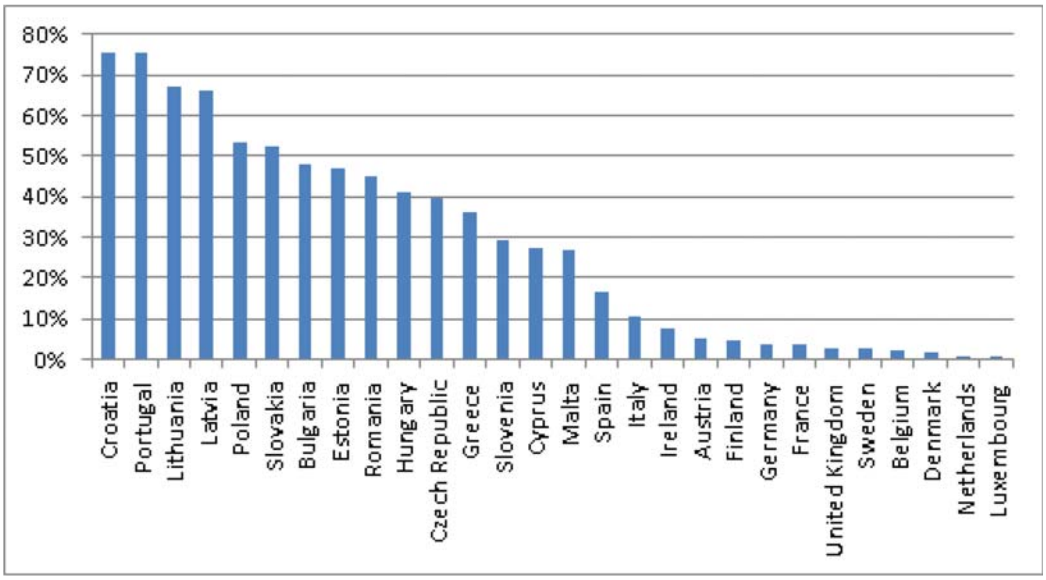
Since 2014, the socioeconomic context in which ESI Funds operate has been gradually improving. In the first year of the programming period economic prospects were low in the EU with stagnating GDP growth rates and high and persistent unemployment. In the last two years, the economic recovery in the EU has been stronger and growth prospects are positive again for all EU Member States. Nevertheless, challenges also remain since GDP growth is uneven across Member States while the slow productivity growth and the legacy of the crisis continue to weigh on the economy.

The employment situation in the EU is improving alongside the economic recovery. More jobs were created in 2016 and unemployment fell (down to 7.8 % in May 2017). Unemployment is expected to decline further over the coming years. Nevertheless, regional disparities in unemployment rates remain significant. The number of people at risk of poverty also continues to be very high. As part of a longer-term trend, inequality in disposable income increased in the EU-28 between 2008 and 2015.

The crisis had a profound impact on national and regional budgets, limiting funding for all types of investment. In the EU, public investment was down by approximately 15 % in real terms between 2008 and 2014. Total investment as a share of GDP also fell and has hardly grown since.

As a result, the ESI Funds became much more important in co-financing public investment programmes. In 2014-2016, the commitments from the ESI Funds played a crucial role in many Member States, accounting in some cases for more than 50 % of total public investment (Chart 1). This boost to investment also helped to mobilise financial resources for the Investment Plan for Europe. In this context, the ESI Funds continue to provide critical support for achieving both the Treaty-based objectives and the 10 priorities set by the Commission for 2015-2019.

Chart 1: Share of ESI Funds in public investment 2014–2016[7]



The Seventh Cohesion Report[8] provides a more complete overview of the socioeconomic developments.

1.2. Varying challenges across Member States

Most Member States highlight that their needs and challenges have not changed since the start of the period, with the development objectives of their programmes remaining valid. Nevertheless, given that the socioeconomic recovery from the crisis has been uneven, changes in the development needs of Member States vary widely depending on their situations.

[7] ESI funding covers Member States' annual commitments for 2014-2016. Public investment covers gross fixed capital formation of the public sector plus public expenditure in agriculture and fisheries according to the classification of functions of government. In order to present all ESIF investments in a comparable way in relation to public investments, this chart also includes current expenditure in agriculture and fisheries as part of the public investment undertaken by the national Governments.

[8] COM(2017) 583 final.

The large number of refugees and migrants arriving in the EU since 2015 has a strong impact on several Member States, regions and cities. Authorities have had to respond to new short and long term challenges. In more limited cases, major natural disasters have also led Member States to reconsider their development needs and the related planned investments of the ESI Funds.

Some Member States highlight the Paris Agreement on climate change and the reinforced focus on the related challenges and opportunities. Investment from the ESI Funds was able to adapt to these new circumstances as well. In this respect, the technical adjustment of the EU's 2014-2020 budget will provide additional financial means for a number of Member States.

2. DELIVERING INVESTMENT FOR SMART, SUSTAINABLE AND INCLUSIVE GROWTH

2.1. Overall progress

The ESI Funds contribute significantly to smart, sustainable and inclusive growth — as enshrined in the EU 2020 targets — in all Member States and regions through action addressing concrete needs and specific situations. Since 2010, there has been progress in reaching these targets in most Member States. The Seventh Cohesion Report highlights the different rates at which regions are advancing towards the EU 2020 targets through a regional index. The most progress is in regions where the distance to the target is greatest. In their reports, Member States also underline that ESIF investment acts as a catalyst spurring progress towards EU 2020 objectives.

The reports show that the total financial volume of the **projects selected reached a cumulative EUR 182 billion** by the end of 2016, **representing 28.4 % of the total investment planned in 2014-2020** (up from EUR 58.8 billion and 9 % at the end of 2015). The EU contribution to these projects is an estimated EUR 128 billion[9].

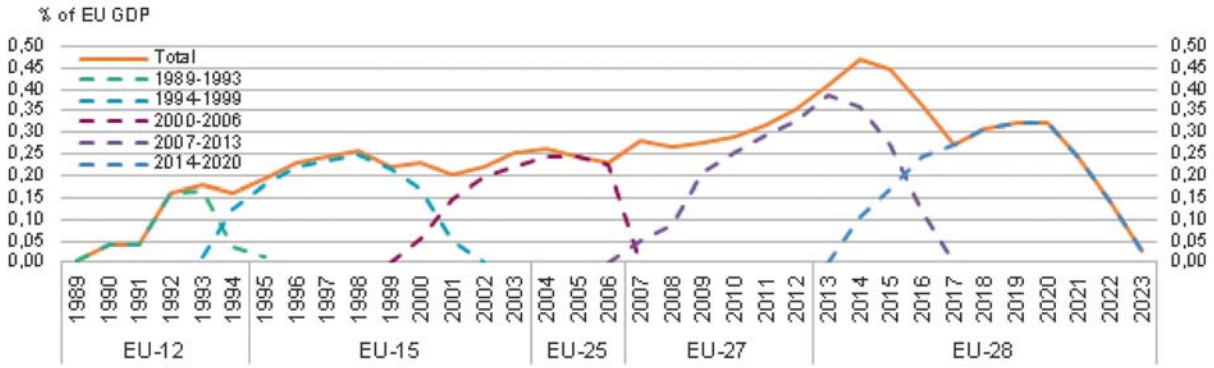
The most recent reports from October 2017 show continuing acceleration: project selection has reached an overall EUR 278 billion, or 44 % of the total investment planned for 2014-2020.

[9] The breakdown of project selection is presented in the tables in the Annexes.

This level of **project selection over 2014-2016 is comparable to the early years of the 2007-2013 period**. This trend is expected to continue. Forthcoming implementation rates are likely to be broadly similar to those in the past period. Therefore, programming periods should not be viewed in isolation as the spending periods overlap, with the closure of one period stretching into the next and exerting a smoothing effect on expenditure flows.

As shown in Figure 1 for cohesion policy[10], actual investment on the ground has been continuing in a relatively seamless way since the 1990's.

Figure 1: cohesion policy funding 1986-2023



The time profile of 2014-2023 expenditure has been established on the basis of the 2007-2013 outcome and an assumption of 100% absorption over the period.

Source: DG REGIO, historical data

At national level, all Member States report a high to very high acceleration of implementation of ESI Fund programmes in 2016. Nevertheless big differences remain as shown in the table in Annex 2.

[10] The Cohesion Fund, the ERDF and the ESF are part of cohesion policy.

Different reasons are given for delays in implementing programmes. Several Member States highlight the late adoption of the regulatory framework and difficulties with the designation of authorities. Weak administrative capacity, complex rules and lengthy preparations to set up large infrastructure were mentioned as further hurdles during the start of the programmes.

Implementation of financial instruments

Building on the good results of the 2007-2013 programmes, a revised framework was set up to support more widespread use of financial instruments ('FIs') in all ESI Funds in 2014-2020. The programming of the funds[11] led to a considerable increase in allocations to FIs compared to the previous period. Good progress is being made for 2014-2020, with 24 Member States making use of FIs and no major systemic bottlenecks identified, although the state of play varies considerably across Member States and programmes. By the end of 2016, the total contribution committed to FIs was EUR 13.3 billion (EUR 5.7 billion at the end of 2015) of which EUR 10.3 billion was ESI Funds. A total of EUR 3.6 billion (around 30 %) of these amounts had been paid to FIs (EUR 1.2 billion at the end of 2015), including EUR 3.1 billion of ESI Funds and EUR 1.1 billion had been paid to final recipients (EUR 99 million at the end of 2015), of which EUR 1 billion was ESI Funds. In terms of thematic objectives, the largest share of funding EUR 3.8 billion of ESI Funds has been assigned to support for SMEs, followed by investments in research, development and innovation at EUR 1.5 billion of ESI Funds and in low-carbon economy, i.e. mainly in energy efficiency and renewable energy at EUR 1.2 billion of ESI Funds.

[11] COM(2015) 639 final.

2.2. Research, technological development and innovation, ICT and SME competitiveness

About EUR 181.4 billion in investments are planned in RD&I, ICT and SME competitiveness in 2014-2020. At the end of 2016, projects worth EUR 50.3 billion had been selected, representing 28 % of the planned total allocation.

It is predominantly in these areas that private financing is planned or expected under cohesion policy. In the financial plans of the programmes some EUR 31.3 billion in private financing is required as matching co-financing of which an estimated EUR 8.8 billion is covered by selected projects. In addition to this formal co-financing, programmes also leverage or induce other private investments. Under the ERDF, the reporting shows that of the target of EUR 42 billion of leveraged private matching finance, projects selected will contribute some EUR 11.5 billion (27 %).

The ESI Funds support more than 76 000 businesses through FIs. Developing and implementing smart specialisation strategies is a new initiative started under the ESI Funds and has made a real difference in the way Member States and regions are designing their innovation strategies. This is boosting cooperation at all levels, especially with local businesses. In an era of globalisation, ESI Funds help Member States and regions to build resilient economies, with further targeted support planned[12], in particular to contribute to the renewed EU industrial policy strategy[13]. The Funds provide important help to Member States to improve digital connectivity and reach the 2020 and 2025 EU connectivity targets.

- The RD&I area shows a sharp acceleration in project selection, at 25 % of available allocation, representing a volume of about EUR 15 billion allocated to projects across the EU. About 29 000 researchers are working in improved research infrastructure as a result.
- Investments in the digital economy have reached 19 % of project selection. This is expected to lead to 915 000 additional households with improved broadband access. 36 % of the funds earmarked for improving ICT services in rural areas have been allocated to projects, and 1 268 000 rural residents are benefiting from improved services.

[12] COM(2017) 376 final.
[13] COM(2017) 479 final.

- Support for the competitiveness of SMEs with 31 % of project selection is well on the way to delivering its targets. More than 196 000 firms are benefiting from non-financial aid and 10 900 businesses are supported to introduce new to the market products. So far the co-financed projects in enterprises are expected to directly lead to the creation of at least 154 000 new jobs.

- More than 36 000 farm holdings have received investments to help restructure and modernise farms and achieve productivity gains. About 11 000 beneficiaries have received support to boost generational renewal and about 50 000 farm holdings are able to participate in quality schemes. Under the European innovation partnership for agriculture 350 interactive innovation projects have been launched.

- Over 3 600 fishing vessels benefited from the European Maritime and Fisheries Fund ('EMFF'), 57 % of which belonged to the small-scale coastal fishing fleet. The provided support promotes sustainable balance between fishing fleets and resources and the protection of the marine ecosystems.

2.3. Employment, social inclusion and education

Around EUR 168.3 billion, especially from the European Social Fund ('ESF'), will be invested in these areas. At the end of 2016, projects amounting to EUR 48.7 billion had been selected, representing 29 % of the planned total allocation.

- For projects involving sustainable and qualitative employment and support to labour mobility EUR 17.4 billion have been committed, representing 31 % of available support. Interventions to increase access to the labour market are reaching both unemployed 4.2 million and inactive 2.1 million individuals. Significant progress has been made in selecting projects to increase access to employment for job-seekers and inactive people (34 % of projects selected) and support self-employment and entrepreneurship (31 % of projects selected). However, the selection rate for projects on the modernisation of labour market institutions seems to be lagging slightly behind at 15 %.

- Social inclusion saw a strong acceleration of project selection, reaching EUR 16.5 billion (26 %). Under the ESF, measures to support active inclusion are well under way (38 %) and should play a key role in supporting vulnerable groups and bringing them closer to the labour market. However, there are concerns about the delay in implementing measures for the socio-economic integration of marginalised communities, such as the Roma. While the project selection for health related measures under the ERDF show improvement, with about 11.5 million additional people covered by enhanced health services, a greater effort is needed to reach the objectives. Social inclusion in deprived urban areas also requires greater attention as the numbers for renovated buildings are still very low. By the end of 2016, the ESF and the Youth Employment Initiative ('YEI') also supported 634 000 people with disabilities.

- Investments in education and vocational training reach EUR 14.6 billion, with a project selection rate close to 30 %. Under the ESF, actions to combat early-school leaving and to promote vocational education and training are advancing well. Despite a relatively low project selection rate for life-long learning activities, about 700 000 persons are being given the opportunity to upgrade their skills and secure their career path. ERDF investments have led to an additional capacity of childcare or education infrastructure equivalent to 4.4 million people.

Overall the ESI Funds, including YEI actions, have delivered:

- 787 000 people found a job immediately after the project;
- 820 000 people gained a qualification.

For social innovation, many Member States have selected projects worth EUR 1.7 billion. The nature of these projects varies greatly and includes the implementation of innovative solutions for education and entrepreneurship, including for women with different ethnic backgrounds.

The ESI Funds continue to assist Member States, regions and cities in their efforts to deal with the **refugee and migration crisis**. A number of programmes have been modified to include new or improved measures to address both immediate needs and the more long-term challenges of integration. For instance, concrete projects are delivering healthcare and social services for refugees and migrants. In addition, targeted cooperation with mayors was launched. Several cities, partners and national authorities are being mobilised within the Urban Agenda for the EU and its partnership to integrate migrants and refugees[14]. The Commission also proposed that the Multiannual Financial Framework review include a regulatory change[15] introducing a dedicated investment priority to make it easier to take measures targeting such integration. The ERDF addresses the long-term social and economic integration of refugees and migrants in Europe, covering for instance investments in housing and childcare infrastructure or business start-ups. By the end of 2016, the ESF and the YEI supported at least 1.2 million people who were either migrants, had a foreign background or were from a minority group.

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14 https://ec.europa.eu/futurium/en/inclusion-of-migrants-and-refugees
15 COM(2016) 605 final.

Implementation of the Youth Employment Initiative

The YEI is a key EU funding instrument to directly support offers of employment, education and training for young people in the context of the Youth Guarantee. In a number of Member States the YEI finances the most part of Youth Guarantee measures. Implementation on the ground is well under way. Member States reported that by the end of 2016 the number of young people who had benefited from YEI supported actions had tripled since end 2015 and that the project selection rate was above 60 %. Most beneficiaries implemented measures with a focus on providing funding for guidance and career counselling, first job experiences and providing traineeships and apprenticeships. More than half of the Member States also supported young entrepreneurs or provided job and training mobility measures.

To speed up implementation, an additional EUR 1 billion was allocated to YEI pre-financing in 2015 to provide the necessary financial liquidity to launch projects. Among the causes for initial delays, Member States highlighted the late adoption of the relevant ESF programmes, difficulties with the new monitoring requirements at the start of the period and the low capacity of public employment services.

Member States report some difficulties in reaching out to the most disadvantaged groups, notably young people who are inactive and not registered with public employment services, and low-skilled young people. By September 2017 1.7 million participants were supported by the YEI.

2.4. Low-carbon economy, climate change, environment and transport

The ESI Funds channel EUR 262.2 billion in these key areas for sustainable development. By the end of 2016 about 28 % or EUR 73.2 billion was allocated to concrete projects:

- Projects selected for the low-carbon economy, such as projects on energy efficiency and renewables, reached 21 % of the total volume available in 2014-2020. One result is that thanks to the ERDF and the Cohesion Fund support, about 148 000 households are expected to get improved energy consumption classifications.

- Good progress is being made in selecting projects for adaptation to climate change and risk prevention (selection rate of 40 % or about EUR 16.5 billion allocated). This is a positive sign following the Paris Agreement on climate change. More than 4.6 million people benefit from new or improved flood protection measures.

- About EUR 26.6 billion (31 % of the available funding) have been allocated to environmental and resource efficiency projects. Good progress has been made on water projects. Approved projects should lead to about 3.5 million people getting improved water supply. 25 % of the funds dedicated to improving the efficiency of water use in irrigation have been allocated to projects, and completed on 14 % of the land area targeted while 23.5 million hectares of agricultural land are receiving support to improve biodiversity. There have been serious delays in investing in waste recycling projects.

- For transport most of the progress is on road investments, in particular on TEN-T, while support to rail transport is progressing at a slow pace. Selected projects are expected to lead to 844 km of new TEN-T roads and 687 km of reconstructed or upgraded TEN-T railway lines.

- Significant progress has been made on carbon sequestration and conservation and on the reduction of greenhouse gases and ammonia emissions. This has been done through improved management of agricultural and forest land: in both cases over 40 % of the target has been reached.

- The EMFF supported better management of more than 60 000 km² of Natura 2000 areas, and almost 1.5 million km² of other marine protected areas.

Delivering climate action

More than 25 % of the 2014-2020 ESI Funds have been planned for climate change related projects, providing a critical contribution to the EU's objective of spending at least 20 % of its budget on climate action. It will significantly help the EU and its Member States to meet the Paris Agreement objectives.

The amounts programmed for climate action are broken down by fund in the table in Annex 3.

The following can be highlighted:

- Climate change actions had a global project selection rate across all EU Member States of 23 % and represent EUR 29.6 billion;
- Implementation of climate change actions varies widely across the Member States. A few coun Member States tries report substantial progress, a large group is progressing as planned and a third group is encountering delays;
- There seems to be a stronger support to climate change related actions under the ESF than initially planned in the programmes;
- The Member States have allocated on average an amount of 57.6 % of their rural development programmes for actions on environment and climate change mitigation and adaptation, far beyond the required minimum of 30%.

Major projects are cornerstones of the ESI Funds' contribution to implementing European policies, mostly in transport, the environment and energy. Over 600 major projects are identified in 2014-2020 and intensive work on their preparation and implementation continues, also with the vital support of technical assistance initiatives such as JASPERS[16]. By October 2017 the Commission had received 168 major projects representing a total cost of EUR 37.6 billion, which is comparable to the total allocation over 2014-2020 of the Connecting Europe Facility (EUR 30 billion). This includes 91 projects that have continued from the 2007-2013 period such as the three Extreme Light Infrastructure projects[17]. However, further mobilisation is needed to speed up investment on the ground.

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[16] Joint Assistance to Support Projects in European Regions.
[17] https://eli-laser.eu/

2.5. Strengthening institutional capacity

The quality of public administration is essential for the socio-economic development and impact of public investments. Support for efficient public administration amounts to a total volume of EUR 6.5 billion in 2014-2020. Of this, EUR 1.8 billion in funding, or 29 % of the total planned investments, has been allocated to such projects so far. Member States should continue to work on removing all bottlenecks to investments and increase their administrative capacity to manage projects, which includes appropriate planning.

3. THE IMPACT OF MAIN REFORMS MADE FOR 2014-2020

3.1. Contribution of the ESI Funds to the European Semester

The policy areas targeted by the European Semester are substantially in line with those covered by the ESI Funds: 60 % of the structural challenges relevant to the ESI Funds are addressed by the programmes.

Several Member States report that the ESI Funds help significantly to address country-specific recommendations on research, development and innovation, labour market, public administration, the health and energy sectors. Indeed, there has been progress on most of the European Semester recommendations, but the pace and depth at which they have been implemented by Member States varies.

Significant labour market reforms have been adopted in recent years, notably in some of the Member States hardest hit by the crisis. These reforms have helped to increase the adjustment capacity of their economies, restore competitiveness and increase employment.

Other reforms have sought to improve the business environment, although this area is the one showing least progress. As a good example of how the ESI Funds contribute to the European Semester, Spain was recommended to review its spending priorities and reallocate funds, including supporting access to finance for SMEs[18], on which basis Spain geared its programmes towards this priority.

[18] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52012DC0310

A number of Member States needed to remove obstacles — in particular regulatory and administrative barriers — to investments in areas such as transport and energy. For instance, Lithuania was recommended to develop cross-border energy connections to neighbouring Member States to diversify energy sources. The ERDF is investing in Lithuania both in electricity interconnectors and gas infrastructure.

Social inclusion and education are covered in the country-specific recommendations in several Member States. For instance, in the case of the Czech Republic a recommendation focuses on the availability of affordable and quality pre-school childcare. This is directly linked to measures included in Czech ESI Fund programmes.

3.2. Ex ante conditionalities, a lever for quality projects

As a major reform in 2014-2020, Member States and regions had to comply with certain prerequisites, or 'ex ante conditionalities', to ensure effective and efficient investments by the ESI Funds.

Around 75 % of all applicable conditionalities had been fulfilled when the programmes were adopted. For the unfulfilled conditions, over 800 action plans were set up. 97 % of those action plans have now been successfully completed. Those not yet completed mainly concern water, waste, transport and public procurement. Member States are co-operating with the Commission to ensure fulfilment.

A preliminary assessment of the ex ante conditionalities mechanism[19] shows that this instrument produced added value for the EU, the Member States and regions, including for citizens and businesses. Although linked to receiving support from the ESI Funds, conditionalities have had a much wider scope. They have helped to transpose and implement the relevant Union legislation, to tackle barriers to investment in the EU and supported EU policy objectives, for instance on climate change. They also triggered policy reforms and the delivery of relevant country-specific recommendations.

[19] SWD(2017) 127 final.

The results achieved by fulfilling these prerequisites need to be sustainable throughout the implementation period. This would ensure a more stable link between the investments and the policy objectives expressed in the ex ante conditionalities.

3.3. Better synergies for more impact

The reforms of the 2014-2020 period have led to better coordination between the five ESI Funds and more potential synergies with other EU instruments. The Member States implemented measures including:

- the alignment of national eligibility rules,
- the use of cross-sectoral fora,
- the running of joint monitoring committees or specific coordinating bodies,
- the establishment of networks within the relevant administrations and
- the application of new IT solutions.

Nevertheless, the reports highlight that there is still room for improvement. Additional efforts to harmonise rules would be welcomed.

In 2015 the Commission launched the ‘Seal of Excellence’ initiative[20] to further strengthen coordination between the ESI Funds and Horizon2020. It is a high quality label awarded to projects submitted to Horizon2020 which were deemed to deserve funding but did not receive it due to budget limits. It helped to channel the ERDF or the ESF to several projects, in particular in Member States like Spain, Italy, Cyprus, the Czech Republic or Poland.

There are also concrete cases in several Member States of complementarity between the ESI Funds and the European Fund for Strategic Investments including combination in investment platforms[21] and projects in sectors such as SMEs, transport, low-carbon economy, or broadband.

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[20] https://ec.europa.eu/research/soe/index.cfm?pg=what

[21] Including for instance in Estonia the 'EstFund', with about EUR 100 million in equity investments made available to enterprises or in the French region of 'Hauts-de-France' with a EUR 37.5 million fund to support investments in the low-carbon economy.

The Commission is also cooperating more closely with the European Investment Bank to help Member States implement the ESI Funds, particularly through the horizontal fi-compass[22] advisory services on FIs and through JASPERS which helps prepare major projects of high quality.

3.4. Supporting integrated territorial development

The ESI Funds are the EU's main instrument to foster integrated territorial development in Member States and regions. The 2014-2020 reforms created a more coherent and ambitious framework to promote territorial cohesion through an integrated approach. As a result, more than 3 800 urban and territorial strategies are receiving dedicated EU support. In addition, the ESI Funds also help Member States to implement measures addressing the needs of specific territories such as sparsely populated areas, mountainous regions, islands and outermost regions[23].

3.4.1. Integrated investments in cities

It is estimated that around EUR 115 billion of cohesion policy funding will be spent in urban areas in 2014-2020. For the first time, a regulatory provision[24] empowers cities to select projects themselves, addressing urban challenges in an integrated way: about EUR 15 billion have been directly allocated to around 900 urban strategies for this. While many Member States underline the heavy workload and complex procedures that go with developing and agreeing integrated urban strategies before actually selecting projects, the approach is often seen as a way to enable long-term strategic vision and positive change in urban development.

[22] https://www.fi-compass.eu/
[23] COM(2017) 623 final.
[24] Article 7 of Regulation (EU) No 1301/2013 (OJ L 347, 20.12.2013, p. 289).

The 2016 adoption of the Urban Agenda for the EU[25] further underlines the Commission's priority of dealing with the challenges and opportunities in European cities. The related launch over the last year of 12 partnerships will jointly mobilise all relevant players[26] to engage in concrete actions, including on the better use of ESI Funds in urban areas. In addition the Urban Innovative Actions[27] are helping urban areas test innovative solutions for sustainable urban development.

3.4.2. Implementing territorial instruments

Integrated territorial investments ('ITIs') are used for implementing around 240 urban strategies and 150 territorial strategies. The community-led local development ('CLLD') instrument will mobilise in total EUR 9.1 billion of ESI funding. To date, more than 3 000 local action groups, which are responsible for implementing the CLLD strategies, have been set up across the EU, covering 46% of the rural population (over 90% of the target), with several hundreds more expected by the end of 2017. In many cases ITIs and CLLDs faced a slow start due to the need to first prepare the related encompassing strategies and governance structures. However, both instruments are performing relatively well by now, and project selection is catching up. Implementation is easier when the integrated approach is embedded in an existing framework and adjusted to the institutional arrangements.

Overall, sustainable urban development, ITIs and CLLD have induced a change in the local and regional planning culture, fostering cooperation and coordination across sectors and across levels of government, and beyond administrative boundaries.

[25] https://ec.europa.eu/futurium/en/urban-agenda.
[26] Including synergies with other EU urban related initiatives such as the European innovation partnership on smart cities and communities.
[27] http://www.uia-initiative.eu/

3.4.3. Making cooperation easier, delivering macro-regional and sea basin strategies

The current Commission made strong commitments to bring the EU closer to its citizens. Interreg programmes[28] have played a key role for several decades in bringing people, businesses, or authorities closer together across the EU. This is Europe at its best with a clear value added. The Commission adopted a Communication on boosting growth and cohesion in EU border regions[29] which makes a number of concrete proposals to take better advantage of the economic, social and territorial potential of these areas. Implementation of Interreg programmes continues to progress on the ground, with satisfactory project selection rates of 35 % on average by the end of 2016 and close to 53 % by October 2017. This represents, for instance, an additional 2 800 firms engaged in RD&I cooperation across borders.

All EU macro-regional strategies[30] and the Atlantic sea basin strategy are part of the 2014-2020 ESI Funds programmes. The Commission's first report[31] on EU macro-regional strategies shows that their implementation has led to more coordination and cooperation in various areas and between countries concerned. Member States highlight further progress and good practices such as targeted calls, bonus to projects of macro-regional relevance or direct support to macro-regional projects. Nevertheless, specific challenges remain, especially for managing authorities to be more proactive in implementing the macro-regional strategies through their programmes.

ESF transnational cooperation is also starting to gain momentum. After initial low interest, the Commission's capacity-building seminars involving peer-learning and the elaboration of new manuals have resulted in 17 Member States planning to launch transnational calls in 2018.

[28] Also known as European Territorial Cooperation programmes (cross-border, interregional and transnational cooperation).

[29] COM(2017) 534 final.

[30] EU Strategy for the Baltic Sea Region (EUSBSR); Strategy for the Danube Region (EUSDR); EU Strategy for the Adriatic and Ionian Region (EUSAIR); EU Strategy for the Alpine Region (EUSALP).

[31] COM(2016) 805 final.

4. BETTER MANAGING PROGRAMMES

4.1. The capacity of authorities and beneficiaries

To make it easier to implement the ESI Funds effectively, Member States are required to ensure that the programme authorities and beneficiaries have a greater capacity to administer them. The reports of the Member States show that concrete steps have been taken to achieve this. Systematic, often compulsory training, e-learning, guidance, networks of knowledge and good practice sharing are common tools used in most Member States to improve the capacity of authorities. The recruitment of additional staff and the streamlining of management of the various ESI Funds have similarly been used to match capacities with needs. Beneficiaries also benefit from training and advisory services, dedicated contact points, as well as information events.

In addition to the Member States' activities, the Commission is providing extensive support on key aspects such as public procurement, state aid, anti-fraud/corruption or peer learning and exchange via TAIEX-REGIO PEER2PEER[32]. The Commission is also boosting the assistance provided by the smart specialisation platform to deliver even more knowledge transfer and capacity development on RD&I across the EU. New targeted support is provided to a number of low-income and low-growth regions[33], and a network of broadband competence offices has been set up to make broadband roll-out easier.

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[32] http://ec.europa.eu/regional_policy/en/policy/how/improving-investment/taiex-regio-peer-2-peer/

[33] SWD(2017) 132 final.

4.2. Simplifying for beneficiaries

Member States report good progress in implementing simplification measures, despite initial delays. A much greater number of e-cohesion measures are now being deployed. Setting up single entry points for beneficiaries, reducing the number of intermediate bodies, harmonising management procedures, streamlining the application process and introducing more single auditing are some of the actions that many Member States have implemented. Simplified cost options are now also reported as being used by a growing number of programmes. Member States are encouraged to maintain and step up where needed their simplification efforts. A recent study has shown that efforts to reduce red tape are paying off[34].

The Commission is pro-actively assisting Member States, not least through the work of the high level group of experts monitoring simplification of the ESI Funds for beneficiaries. The group's work has led to concrete proposals[35] for new simplification measures to be introduced already in 2014-2020.

4.3. Key role of partners in implementing programmes

In the Code of Conduct[36], the Commission set a number of minimum standards for a well-functioning partnership. Most Member States report progress in involving partners, including in the programme monitoring committees. The creation of sub-committees or informal working groups with representatives of municipalities, NGOs or social partners is among the measures taken to involve partners. However, opportunities to engage in constructive dialogue can be hampered by time constraints and the low administrative capacity of both partners and managing authorities. To prepare their progress reports, most Member States report that they either consulted socio-economic partners or closely involved them in the work.

[34] https://publications.europa.eu/en/publication-detail/-/publication/1f94b1ab-9830-11e7-b92d-01aa75ed71a1/language-en/format-PDF

[35] COM(2016) 605 final.

[36] Commission Delegated Regulation (EU) No 240/2014 (OJ L 74, 14.3.2014, p. 1).

4.4. Implementing horizontal principles and policy objectives

Gender equality, non-discrimination, accessibility and sustainable development have been mainstreamed through the Partnership Agreements and the programmes. Several Member States emphasise that specific project selection criteria are used to ensure that these horizontal principles are effectively considered when deploying the funding. There is room for further use of this good practice in more programmes.

Several programmes have also stepped up training and capacity building to address the insufficient knowledge and know-how on implementing horizontal principles. Measures taken include:

- the active participation of authorities and socio-economic partners dealing with gender equality, non-discrimination or sustainable development issues in the monitoring committees or in ad hoc consultations,
- the training of people in charge of implementing the ESI Funds, and
- awareness campaigns to ensure the visibility of these principles.

4.5. Synthesis of the evaluation of the ESI Funds

The requirements on all programmes to improve the evaluation of their results have been reinforced for this programming period. That work will be essential to better understanding the contribution of the ESIF programmes to growth, sustainable development and job creation through the specific objectives set by the different programmes.

Since the last annual summary report in December 2016 the Commission has received the outstanding evaluation plans from the relevant cohesion policy programmes. While it is still too early to have national impact evaluations, various studies have been launched at national and regional level. An overview of the important evaluation effort planned and the evaluations conducted is set out in more detail in the Staff Working Document accompanying this Report. The evaluation at EU level to assess overall effectiveness, efficiency and EU added value of the ESI Funds investments will mainly be conducted at the end of the programming period and ex post.

4.6. Communicating on the ESI Funds

ESI Fund projects are among the most tangible and visible illustration of EU action across the Union. It is what people in Europe often associate the EU with[37]. In 2014-2016, both the Member States and the Commission stepped up their efforts to further raise awareness of the ESI Funds' impact on people's lives. Member States' communication strategies targeted specifically local communities, the media and stakeholders, in particular through improved national and programme websites and more social media activities. Member States reported several examples of creative communication on ESI Funds which inspired the seven joint communication actions that the Commissioners responsible for Regional Policy and Employment and Social Affairs proposed to all Member States in May 2017.

A clear expression of these improved efforts is the annual 'Europe in my Region' campaign in May when several thousand project promoters open their doors to the public. The ESI Funds also provided many project examples for the Commission's #InvestEU campaign, demonstrating the direct impact of investment in growth and jobs on people's daily lives.

CONCLUSION

With a budget of EUR 454 billion for 2014-2020, the ESI Funds represent the EU's main investment tool, providing support to all of its Member States and regions.

[37] According to Eurobarometer results (Flash EB 423), 34 % of citizens are aware of EU investments in their region and 75 % of those aware consider that these investments have had a positive impact.

The legal framework of the 2014-2020 programming period has brought significant policy innovation that is contributing to the *EU Budget Focused on Results* initiative. The reform has introduced a series of modern elements for effective delivery. In addition to supporting smart, sustainable and inclusive growth objectives and furthering cohesion, the ESI Funds provide better framework conditions for investment – through ex ante conditionalities, the alignment with country-specific recommendations, the reinforced performance framework and better synergies with other instruments. This produces substantial policy leverage that goes well beyond the ESI Funds.

Putting this ambitious new approach into practice in Member States and regions required time and resources in the start-up phase. The Commission has assisted, and will further support Member States in complying with new regulatory requirements and adapting to new challenges in a number of ways, including through advisory services, capacity building, training and sharing of good practice and other measures.

The first national progress reports of the 2014-2020 programming cycle, together with the programme annual implementation reports, give an overview of how Member States are implementing policy objectives and making progress in achieving them. The results of the 2016 monitoring exercise and the latest data available at the end of October 2017 show that with a total amount of project selection now worth EUR 278 billion, representing 44 % of the total financing available for the period, the implementation of the ESI Funds has taken off and is reaching cruising speed. The related investments deliver concrete improvements to the lives of people across the EU in key areas such as economic development, employment, healthcare, accessibility or environmental protection, and have also been able to respond to emerging needs such as the migration crisis. It is tangible evidence of the added value of the EU in action.

While progress is significant across most Member States and policy areas, a number of challenges still remain such as investments in ICT, the low-carbon economy and support to administrative capacity building for authorities and beneficiaries. More effort is needed to ensure that quality projects are selected and effectively implemented.

It is now imperative that the accelerated pace of implementation is followed up by a strong and quick increase in actual spending. Member States need to make sure that the committed funds are disbursed while maintaining the positive progress in project selection. In doing so, they will maximise the valuable contribution of these funds to key Union priorities.