EN 2018

NO 08

Special Report

EU support for productive investments in businesses - greater focus on durability needed

(pursuant to Article 287(4), second subparagraph, TFEU)

EUROPEAN
COURT
OF AUDITORS

AUDIT TEAM

The ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was carried out by Audit Chamber II Investment for cohesion, growth and inclusion spending areas, headed by ECA Member Iliana Ivanova. The audit was led by ECA Member Ladislav Balko, supported by Branislav Urbanič, Head of Private Office and Zuzana Franková, Private Office Attaché and audit team member; Gerhard Ross, Director, Myriam Cazzaniga, Principal Manager; Kurt Bungartz, Head of Task; Alessandra Falcinelli and Jolita Korzunienė, Auditors.

From left to right: Branislav Urbanič, Zuzana Franková, Ladislav Balko, Myriam Cazzaniga, and Jolita Korzunienė.

CONTENTS

ABBREVIATIONS AND GLOSSARY

(EU) Added value	The EU added value is the value that an EU action adds to the value that would otherwise have been created by Member States acting alone. In the context of this audit, the EU added value are the benefits resulting from the EU co-financed productive investments, such as enhancing the competitiveness of small and medium-sized enterprises, better identification of local and regional needs and solutions, long-term employment and greater scope for innovation.
Common provisions regulation (CPR)	Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013. This Regulation lays down the common rules applicable to the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF), which operate under a common framework (the 'European Structural and Investment' - 'ESI Funds'). It also lays down the provisions necessary to ensure the effectiveness of the ESI Funds and their coordination with one another and with other Union instruments.
Deadweight loss	Deadweight is an effect occurring when funding is provided to support a beneficiary who would have made the same choice in the absence of aid. In such cases, the outcome cannot be attributed to the policy, and the aid paid to the beneficiary has had no impact. Thus, the share of expenditure which generates deadweight is ineffective by definition, because it does not contribute to the achievement of objectives. In the context of this audit, it is a situation where a subsidised project would have been wholly or partly undertaken without the grant aid.
Direct project results	Changes experienced by those directly addressed by an intervention resulting from their participation (e.g. increased production, productivity, sales, turnover or exports; enhanced entrepreneurship and competitiveness; new products or services introduced; long-term jobs created or maintained).
Durable project results	Long-lasting project results. The main indicator for durability of project results is continued flow of net benefits achieved by the project. For instance, after project completion, during and after the legal durability period, the project should generate an acceptable level of financial and economic return on costs; increase production, productivity, employment, competitiveness and entrepreneurship; and enhance innovation.
European Regional Development Fund (ERDF)	The European Regional Development Fund is aimed at reinforcing economic and social cohesion within the European Union by redressing the main regional imbalances through financial support for the creation of infrastructure and productive job-creating investment, mainly for businesses.

European Structural and Investment funds (ESIF)	There are five separate funds supporting the delivery of the European Union's strategy for smart, sustainable and inclusive growth across the EU, as well as the fund-specific missions, with policy frameworks set for the seven-year MFF budgetary period: the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).
Europe 2020 Strategy	The Europe 2020 Strategy is the EU's growth strategy for 2010-2020, to recover from the financial crisis. It is split into five headline targets, covering: employment, research and development, climate/energy, education, social inclusion and poverty reduction.
Indicator	A measurable proxy for an objective, providing useful information for assessing the degree to which an objective is met.
Indirect project results	The positive effects of projects for the regions concerned, e.g. increased employment, competitiveness and entrepreneurship, enhanced innovation, better business survival rates, the correlation between financial support and cooperation with universities/researchers to enhance innovativeness and competition, increased skills or knowledge base, business consultancy and networking with other similar organisations.
Managing authority (MA)	A managing authority is a national, regional or local public authority (or any other public or private body) which has been designated by a Member State to manage an operational programme. Its tasks include selecting projects to be funded, monitoring how projects are implemented, and reporting to the Commission on financial aspects and results achieved. The managing authority is also the body that imposes financial corrections on beneficiaries following audits carried out by the Commission, the European Court of Auditors or a relevant authority in a Member State.
Monitoring	A continuing function that uses systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds (*Source*: OECD Development Assistance Committee Glossary).
Operational programme (OP)	An OP sets out a Member State's or a region's priorities and specific objectives and describes how funding (both EU and national public funding and private co-financing) will be used during a given period (currently seven years) to finance projects. The projects within an OP must contribute to a certain number of objectives. The funding comes from the ERDF. The OP is prepared by the Member State and has to be approved by the Commission before any payments can be made from the EU budget. OPs can only be modified during the programme period if both parties agree.
Programme period	The multi-annual framework within which ERDF expenditure is planned and implemented.

Project outputs	The deliverables of a project.
RES	Renewable energy sources
ROP	Regional Operational Programme
R&D	Research and development
SMEs	Small and Medium-sized Enterprises
Sound financial management	Fair and transparent management of the EU budget in accordance with the financial regulation and, in particular, the principles of economy, efficiency and effectiveness.
TFEU	Treaty on the Functioning of the European Union

EXECUTIVE SUMMARY

ERDF support for productive investments in businesses

I. Over 75 billion euro from the European Regional Development Fund (ERDF) was earmarked for productive investments in enterprises between 2000 and 2013, and more than 68 billion euro is planned for that purpose in the period 2014 to 2020.

How we conducted our audit

II. The aim of our audit was to assess whether this funding had been managed in a way which ensures durability of outputs and results and to identify the main factors affecting it.

III. We examined 41 completed productive investment projects co-financed by the ERDF between 2000 and 2013 under eight OPs in Austria, the Czech Republic, Germany, Italy and Poland. This included reviewing the OPs underlying the projects audited, as well as project selection, monitoring, reporting and evaluation.

What we found

IV. Overall, we conclude that a majority of the projects audited had durable results. However, in many of the projects audited the results were not or only partially durable which is mainly due to a lack of emphasis on durability in the management of the ERDF support to productive investments between 2000 and 2013.

V. The durability requirements under EU law were met in all regions where the audit took place. The projects audited had, in general, delivered outputs as planned. In most cases, the purchased assets and other outputs still existed and were being used at the time of the audit.

VI. At the time of the audit, a majority of the projects audited were still generating the expected direct results, mostly related to job creation, improved access to finance and loans, increased production and productivity. But, in one fifth of them, the results achieved by the time they were completed did not last. Moreover, in nearly half of the projects audited, it was not possible to comprehensively assess the durability at the end of the durability period, as information was not always available, because it had not always been collected (or at

least not consistently) and because relevant documents were not available anymore due to the expiry of the archiving period.

VII. Where results were not durable, there were various reasons for this. While in a few cases, the reasons were clearly beyond the control of the beneficiaries, due to exogenous factors such as the economic crisis or changes in national legislation; other cases were due to management weaknesses. The main reason was the insufficient focus on durability at different levels in the management of EU funds: OPs did not promote durability effectively; selection procedures did not take sufficient account of conditions for attaining good long-term results; monitoring and reporting of results after project end was weak, and the performance indicators used were poor; corrective measures taken in case of failure to achieve targets or to comply with legal durability requirements were applied inconsistently; and the Commission did not place sufficient emphasis on aspects of durability when approving the OPs.

What we recommend

VIII. The regulatory framework has brought improvements in this respect for the 2014-2020 period. Nevertheless, further action is needed in order to attain durability of results in this programme period and improve the design of the relevant programmes with respect to durability in the post-2020 period. We therefore recommend that:

- The Member States should promote the achievement of durable results from ERDF-financed productive investments at the OP programming level, in particular through:
    - ✓ more focus on identifying and mitigating risks to the achievement of durable results,
    - ✓ better analysis of the needs of different types of businesses, including the need for public funding, in order to avoid deadweight loss.
- During the approval process of OPs, the Commission should pay particular attention to how Member States address durability of outputs and results.

- The Member States should improve their selection procedures and criteria so that the risk of deadweight loss is taken into account and only productive investment projects with the potential for adequate long-lasting results are supported.

- The Member States should conduct appropriate and consistent monitoring and reporting:

    - ✓ using pre-defined and relevant indicators for both outputs and results, as well as for measuring long-lasting results at OP level, while keeping the number of indicators manageable;

    - ✓ establishing monitoring and reporting procedures to be used at project completion and throughout the durability period, which should be described in the grant agreements;

    - ✓ improving the collection and use of relevant data.

- The Commission and the Member States should make sure that ex-post evaluations at OP or EU level look into the different aspects of the durability of results achieved at the end of the durability period and beyond in a more systematic manner. The evaluation results should be used when designing future EU business support schemes.

- The Commission should ensure that Member States apply clear corrective measures including recovery arrangements consistently where projects fail to comply with EU legal durability requirements.

- Where Member States have set binding targets at project level, they should establish clear corrective measures and apply them consistently.

INTRODUCTION

Productive investment and business support by the ERDF

EU policy objectives

1. For more than 15 years, enhanced productivity, entrepreneurship, competitiveness, growth and employment and innovation have been at the centre of the Union's efforts to bring its economy forward. Support for business investment in the European regions has been embedded in two leading EU strategies:

- the Lisbon Strategy of 2000[1], which aimed to make the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" and
- the Europe 2020 Strategy[2], which since 2010 has aimed to boost growth and employment through different flagship initiatives, one of which focused on industrial policy for improving the business environment, targeting SMEs in particular.

ERDF support for businesses

2. The EU's strategies for European regions are implemented through a combination of national and European Structural funds (since 2014: the European Structural and Investment Funds or ESIF). The most important of these funds, the European Regional Development Fund (ERDF), has provided for direct investments in businesses of different types and sizes.

3. Between 2000 and 2013, the regulations governing the ERDF[3] stipulated that the funds should contribute to the financing of productive investment to create and safeguard

---

[1] See the Presidency conclusions of the European Council in Lisbon on 23/24 March 2000 (also called 'the Lisbon agenda').

[2] COM(2010) 2020 final of 3 March 2010 'EUROPE 2020 - A strategy for smart, sustainable and inclusive growth'.

[3] Article 2(2) of Regulation (EC) No 1261/1999 of 21 June 1999 on the European Regional Development Fund (OJ L 161, 26.6.1999, p. 43), and Article 3 of Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund (OJ L 210, 31.7.2006, p. 1).

sustainable jobs by measures which also encourage local and regional development. The Commission defines productive investment as investment in fixed capital or immaterial assets for enterprises, which are to be used for the production of goods and services, thereby contributing to gross capital formation and employment. These measures were primarily – but not exclusively – intended to support SMEs.

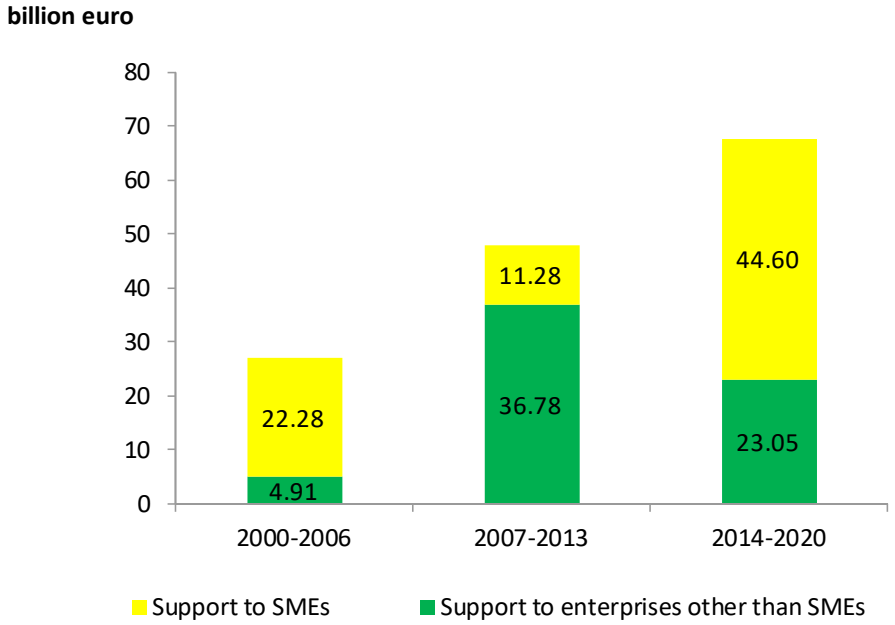
4. The scope of the ERDF in the 2014-2020 period is, in principle, confined to support for creating and safeguarding sustainable jobs in SMEs. However, as an exception, large firms can benefit from productive investment provided that this involves cooperating with SMEs and contributes to strengthening research, technological development and innovation or supporting the shift towards a low-carbon economy[4].

Substantive financial support for productive investment provided by the ERDF

5. Direct support for enterprises and innovation from the ERDF between 2000 and 2020 is planned to amount to almost 143 billion euro. This means that, overall, the private sector has benefited from around one third of the total amount of ERDF funds. ***Figure 1*** shows the allocations to productive investments between 2000 and 2020, and details for each Member State are set out in ***Annex I***. Depending on the Member States and the regions, the ERDF co-financing rates have generally been between 25 % (in relatively wealthy regions) up to 85 % (in poorer regions).

[4] Article 3 of Regulation (EU) No 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the investment for growth and jobs goal (OJ L 347, 20.12.2013, p. 289).

Figure 1 - ERDF allocations to productive investments for the period 2000 to 2020



Source: European Commission.

Shared management of ERDF programmes

6. Structural Funds projects are co-financed by the EU budget together with the national or regional authorities. Project funding is subject to rules and conditions laid down partly at EU and partly at Member State level. The management of the funds is thus shared. Within the framework of the management of the ERDF, managing authorities (MA) drew up operational programmes (OPs), managed the implementation of the OPs, set up and operated their management and control systems and submitted annual implementation reports to the Commission. As part of the day-to-day management, these authorities were responsible for selecting projects and for monitoring, implementing, checking and evaluating them[5].

7. The Commission, for its part, issued guidelines for drawing up OPs, then endorsed these and supervised the setting up and operation of the management and control systems in the Member States. In particular, it monitored the implementation of the OPs, mainly through Member States' implementation reports and by participating in monitoring committees. In

[5] Information about EU management and control systems for assistance granted under the ERDF between 2000 and 2020 is available on http://ec.europa.eu/regional_policy/en/funding/erdf/.

addition, it was able to request specific information (including project selection data from the MAs) at any time up until the final closure of the programmes.

Durability of project results

The concept of durability

8. In this audit, we define durability as the ability of a project to maintain its benefits for a long time after the project has been completed. The main indication that a project has achieved durable outputs and results is a continued flow of net benefits from that project after it has been completed, both during and after the legal durability period (see ***paragraphs 12 to 15***). Co-financed productive investments should generate financial and economic return on costs, increase production, productivity, employment, competitiveness and entrepreneurship, and enhance innovation. The operations supported should also provide long-term benefits to the regions in which they are located.

9. In the context of this audit, outputs should be understood as the deliverables of a project (activities, services, operation of project facilities, knowledge and skills). Results are changes that arise for direct addressees at the end of their participation in an intervention (e.g. increased production, productivity, sales, turnover or exports; enhanced entrepreneurship and competitiveness; new products or services introduced; long-term jobs created or maintained) and also the positive effects of projects for the regions concerned.

10. In some of our previous reports[6], we have highlighted risks in relation to the durability of EU funded infrastructures, including problems with maintaining project outputs and results. A lack of durability and a lack of attention to this aspect of project management can reduce the effectiveness of public interventions.

11. Ensuring durability requires a robust analysis and strategy at the formulation stage of a programme or project. Important preparatory measures can be taken as early as the

---

[6] Special Reports No 9/2010 'Is EU Structural Measures spending on the supply of water for domestic consumption used to best effect?'; No 2/2015 'EU-funding for Urban Waste Water Treatment plants in the Danube river basin: further efforts needed in helping Member States to achieve EU waste water policy objectives' and No 6/2014 'Cohesion policy funds support to renewable energy generation – has it achieved good results?'

planning stage in order to determine what it is that one wishes to achieve and maintain in the long run by financing a specific investment. It requires appropriate monitoring throughout the life-cycle of a project and thereafter. It also requires stable institutions and private-sector beneficiaries which guarantee effective management support for continued operations during the project's economic life. According to a study by the European Parliament[7], there has only been limited interest by the public sector in Structural and Cohesion Funds in the issue of durability and, consequently, only incomplete data is available on the durability of results from projects co-financed by the ERDF.

The regulatory framework

12. The EU regulation on the ERDF lays down a legal durability requirement. In general, it requires businesses to keep the project outputs/purchased assets for a period of five years (or three years exceptionally for SMEs[8] where the Member State concerned had so decided) to avoid recovery of the ERDF co-financing awarded. Given that this legal durability only applies to outputs/purchased assets and that it covers a maximum period of five years, it is different from the concept of durability explained above and used in this audit.

13. Over time, the requirement regarding the length of the durability period has become stricter. During the 2000-2006 period, the managing authorities had to recover the corresponding ERDF co-financing and inform the Commission if a project underwent a substantial modification[9] within five years of the date of the grant decision. Between 2007

---

[7] Study on "Aspect of durability in the assessment of effectiveness of support for businesses under Structural and Cohesion Funds" commissioned by the European Parliament's Committee on Budgetary Control, 2013.

[8] SME are those firms which employ less than 250 persons and have an annual turnover not exceeding 50 million euro or an annual balance sheet total not exceeding 43 million euro. This applies to all sectors and also includes micro companies. See SME definition, http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en.

[9] See Article 30(4) of Regulation No 1260/1999. A substantial modification would be "affecting its nature or its implementation conditions or giving to a firm or a public body an undue advantage and, at the same time, resulting either from a change in the nature of ownership in an item of infrastructure or a change of location in a productive activity".

and 2013[10], the legal requirements were similar, but the starting point for counting the five years was moved from the grant decision date to the project completion date. In addition, a penalty was introduced for businesses that had transferred a productive activity within or between Member States.

14. In 2010, the application scope for the durability requirement was reduced to operations comprising investment in infrastructure or productive investments only. In addition, to ease the burden on the beneficiaries in the aftermath of the economic crisis, an exception to these requirements was introduced for the cessation of the productive activity due to a non-fraudulent bankruptcy[11].

15. An important innovation regarding the legal durability requirements in the 2014-2020 ESIF is the tightening of the starting point of the durability period by referring to the date of the project final payment or, alternatively, the date set in the State aid decision. In addition, EU co-financing must be repaid if the productive activity is relocated outside the EU within 10 years, except where the beneficiary is an SME[12]. The intervention logic for productive investment under the ERDF, including aspects related to durability is detailed in ***Annex II***.

AUDIT SCOPE AND APPROACH

16. The audit, conducted between July 2016 and June 2017, sought to answer the question of whether the ERDF projects for productive investments in enterprises have been managed in a way which ensures durability of outputs and results.

---

[10] See Article 57 of Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (OJ L 210, 31.7.2006, p. 25).

[11] Regulation (EU) No 539/2010 of the European Parliament and of the Council of 16 June 2010 amending Council Regulation (EC) No 1083/2006 (OJ L 158, 24.6.2010, p. 1).

[12] Article 71 of 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 (OJ L 347, 20.12.2013, p. 320).

17. In the first part of this report, we analyse the durability of outputs and, in the second part, the durability of results (direct and indirect). We assessed durability at the end of the legal durability period and at the time of the audit. In part three, we identify the main reasons why productive investments lacked durability, as well as good practice we encountered in our audit. In this respect, we examined the roles of the responsible authorities in the Member States and of the Commission. This included reviewing the OPs underlying the projects audited, as well as reviewing project monitoring, reporting and evaluation. In the last part, we analyse potential improvements regarding durability in the 2014-2020 programme period. We also examine changes made in the 2014-2020 ESIF regulations in order to increase the potential for durability of results.

18. We examined 41 completed productive investment projects co-financed by the ERDF under eight OPs in Austria, the Czech Republic, Germany, Italy and Poland implemented between 2000 and 2013 with a durability period ending between 2006 and 2018. All projects had previously been audited by us in the context of the Statement of Assurance for compliance with regulatory requirements. They were selected based on the sample size drawn under the previous audit in the Member States concerned and on their financial size. Most projects corresponded to investments in assets for enterprises from different manufacturing sectors (e.g. steel or stone products, car parts, sanitary equipment, industrial applications), from the energy sector (coal, renewables) and from the tourism sector (hotels). Some of them involved R&D investments. The projects ranged in value from 0.1 to 91.7 million euro. The beneficiaries were usually small to mid-size companies. A list of the audited projects and the OPs through which they were financed is presented in ***Annex III***.

OBSERVATIONS

The outputs from the audited projects were mostly durable

19. For the projects audited, we first checked that all the expected outputs had been delivered as planned. Then we assessed whether they had actually been maintained in their original locations and had not been ceded, either in full or in part, during the legally binding durability period (3 or 5 years), i.e. they could not be sold and the corresponding economic activities could not be relocated inside or outside the EU. We also checked that they had

been used on the same production site, except if they were replaced by assets of at least the same market value purchased at the cost of the project beneficiary.

20. In all EU regions where the audit took place, the legal durability conditions applied in the OPs were generally in line with the relevant EU regulations[13]. We did not, in all the audited projects except one, find substantial modifications or changes in the nature of ownership or cessation of the productive activity by the end of the durability period.

21. In the main, at project completion, the projects examined delivered the expected outputs[14]. The outputs were, typically, the acquisition of facilities for the manufacturing or production of goods, such as production halls and production lines including machinery and equipment used in different industrial sectors (e.g. in food, chemicals, plastics and metal ware, sanitary equipment, car parts, energy or renewable energy facilities or parts thereof). Businesses in the service or tourism sectors also received grants, e.g. support for print shops and refurbishment or construction of hotels. ***Box 1*** illustrates outputs from three of the audited projects, and details for each project can be found in ***Annex III***.

Box 1 - Examples of project outputs
Project 4 (Burgenland/Austria OP) - Purchase of a powder coating system by a SME which manufactures office furniture
Total investment cost: 1 million euro. Grant amount: 0.15 million euro, of which 0.13 million euro from the ERDF. Project implemented from August 2007 to March 2008. The main project output was the purchase of laser cutting equipment and a powder coating system to produce high-quality coatings with extremely scratch-, impact- and corrosion-resistant surfaces.

[13] 2000-2006 period: Article 30(4) of Regulation (EU) No 1260/1999; 2007-2013 period: Article 57 of Regulation (EU) No 1083/2006; 2014-2020 period: Article 71 of Regulation (EU) No 1303/2013.

[14] The outputs were partially achieved in only three of the audited projects (1, 20 and 27). For instance, under Italy's central OP, project 27, a pilot production line, had not manufactured the planned number of products (pieces for organic lights). Consequently, the scientific output was achieved only partially as the space covered by the organic lights had been reduced.

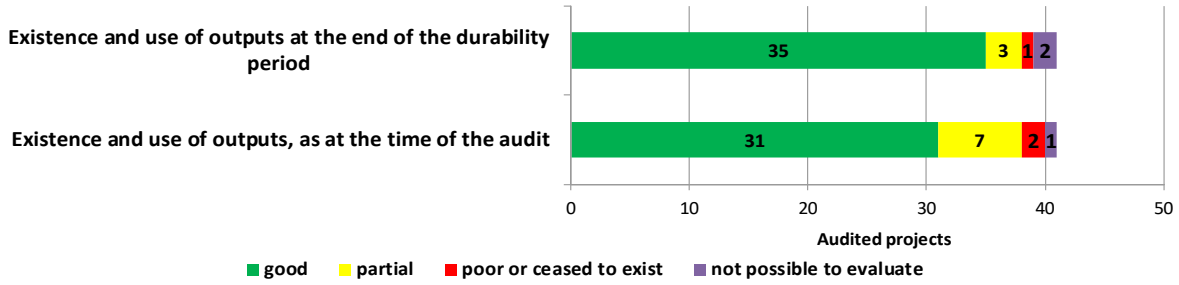
Project 20 (Saxony/Germany OP) - Installation of a new production and research and development site for innovative testing and certification of newly developed products in the hydraulics sector by a SME newly created
Total investment costs: 6.2 million euro. Grant amount: 2.8 million euro, of which 1.4 million euro from the ERDF. Project implemented from March 2009 to February 2012. The project output was the newly established enterprise offering testing, certification and various other services to third companies which intend to develop and sell new high tech products from the hydraulics sector.
Project 8 (Regional OP Czech Republic) - Revitalisation of a brownfield site and construction of a hotel by a family-owned company in a tourist town
Total investment costs: 2.9 million euro. Grant amount: 1 million euro of which 0.8 million euro from the ERDF. Project implemented between July 2008 and September 2009. The project outputs were a new hotel compound with 160 beds, including the certification of the accommodation facilities in the Czech Republic. The construction works included the revitalisation of a brownfield site in a town centre.

22. In general, at the end of the legal durability period, the assets existed at the production sites. Assets had not been sold and the firms' economic activities had not been relocated. In most cases, they had been appropriately maintained and used effectively in line with the needs of the enterprises throughout the durability period (see ***Figure 2***). There was only one case[15] where a facility was not in operation, and this was due to bankruptcy. In three more cases[16], the assets (manufacturing equipment, computers, software programmes) were not in full use or the production lines were not operational due to a lack of maintenance by their owners, a failure to consider business developments in the relevant sector or changes in the relevant energy legislation.

[15] Project 1.

[16] Projects 20, 27 and 33.

Figure 2 - Existence and use of project outputs at the end of the durability period and at the time of the audit



Source: ECA's analysis, based on information provided by MAs or beneficiary enterprises.

23. Also, at the time of our on-the-spot visits, the assets were still in use in 31 projects. In nine cases[17], they were either not being used at all, being partially used or had been replaced by other equipment after the end of the legal durability period – which for SMEs was often only three years after project end. Such entrepreneurial behaviour may have been prompted by valid reasons, such as replacing machinery or IT systems due to wear or depreciation, or having more state-of-the-art equipment with at least the same trade value, or changes in the relevant energy legislation. For example, in one of the projects[18], the equipment was replaced right after the end of the legal durability period due to its expensive operating costs.

Most of the projects audited created durable results but one fifth did not

24. We first checked whether the projects audited had achieved the expected direct results at project completion. We then analysed the situation at the time of the audit to assess whether these results had been maintained by the project owners for as long as possible so as to generate the maximum possible benefits far beyond project end. While doing this, we also took into consideration the economic situation of the firms in relation to that of the

---

[17] Projects 1, 10, 14, 20, 26, 27, 32, 33 and 35. The existence of the outputs in one project (25) could not be evaluated at the time of the audit. The assets from project 10 were not in use immediately after, project 14 – after one year, project 35 – 3.5 years after end of durability period.

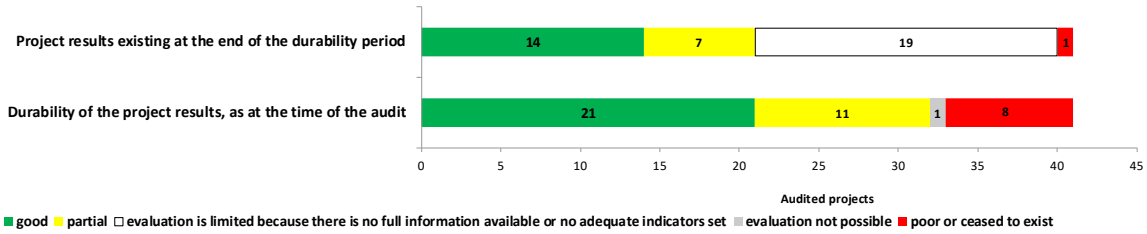
[18] Project 10.

market where their activities are situated and other exogenous factors that might have an impact on the potential benefits. The assessment criteria are explained in detail in ***Annex IV***.

Durability of direct results was good in about half of the projects audited

25. We checked that the projects audited pursued various direct results, such as improving access to finance, increasing production and productivity, creating employment, increasing sales, turnover or exports, diversifying enterprise structures, improving company image, introducing new products or services, and others (e.g. increased cooperation with other institutions in order to enhance innovation and competitiveness) on the basis of the information available at the MAs[19]**.** We assessed the durability of direct results at the end of the durability period and at the time of the audit on the basis of the information collected at the beneficiaries (see ***Figure 3***).

Figure 3 - Durability of direct project results



Source: ECA's analysis, based on information provided by MAs or project beneficiaries.

26. By the end of the legal durability period (which, for the projects audited, was between 2006 and 2018[20]), and based only on the available monitoring information, results existed in full (and throughout the whole durability period) in 14 projects and partially in seven projects (see ***Figure 3***). However, for nearly half of all projects (19), this assessment was not possible because the MAs had not collected the necessary monitoring data (see also

[19] This information might sometimes have been limited due to the fact that our audit took place after the end of the archiving period for these documents.

[20] Where the end of the durability period was beyond the time of the audit our assessment is based on the information available at the time of the audit only.

paragraphs 73 to 75) or because relevant documents were not available anymore due to the expiry of the archiving period (in the projects under OP Puglia and OP Burgenland).

27. We noted only a few examples where the monitoring allowed for a more thorough collection of data on project results. For instance, the MA in charge of the OP in Poland monitored and assessed the achievement of project results using different financial and performance indicators, such as revenues, the value of goods produced as a result of the project, reduction of emissions, etc[21]. Also, for six other projects in Saxony and Lower Saxony[22], the increases in turnover beyond the region and in exports were measured.

28. However, as most MAs focused solely on job creation (one of the main goals for the OPs), they did not collect information about other relevant (economic) benefits which might have been delivered by the projects. Therefore, a comprehensive assessment of the actual achievements of a project and their durability was not always feasible based on the monitoring information alone.

29. At the time of our on-the-spot visits, and also based on additional information provided by beneficiaries and MAs, we found that the direct results were durable in 21 projects, only partially durable in 11 and poor or not durable at all in eight projects[23] (details are included in ***Annex III***).

30. As secondary benefits, the projects enabled the beneficiary companies to restructure or modernise their productive assets, adapt and diversify their product portfolios and enhance their productivity and thus their profitability, thereby ultimately helping them develop their position on the market. ***Box 2*** illustrates an example of a project where the results achieved and their durability was good. Another secondary benefit, according to the beneficiary firms, was an improved image and, as a result, better customer loyalty.

---

[21] Projects 33, 35, 39, 40 and 41.

[22] Projects 16, 17, 19, 21, 23 and 24.

[23] In one case, an assessment was not possible due to a lack of information (project 25).

Box 2 – Example of project with good durability of direct results

Project 17 (Lower Saxony/Germany OP) - SME takeover of and investment in a production plant for vegan food products threatened by closure

Total eligible investment costs: 10 million euro.
Grant amount: 1.6 million euro, including 1.1 million from the ERDF.
Number of jobs created:

- at project end – January 2011: 68 permanent jobs (compared to 61 planned),
- in June 2016: 81 jobs.

If we take into account the public grant only, the firm invested less than 20 000 euro per saved or newly created job. Moreover, the existing jobs at the company taken over by the beneficiary firm could not have been saved following illiquidity proceedings.
Other direct results obtained:

- access to finance including loans;
- increased productivity and production output;
- increased turnover and sales to other regions, as well as exports;
- diversification of product range;
- new clients and extension of client base;
- better company image.

31. In some cases[24], the beneficiaries benefited from improved access to finance and loans. This allowed them to be more ambitious in their investments and, ultimately, achieve better results. Additional investments were made using the companies' own resources alongside the subsidised assets. According to some of the audited beneficiaries, the projects significantly boosted their economic viability in the longer term. In several cases[25], generally difficult market conditions or the harsh repercussions of the economic crisis had brought some of the enterprises to the edge of insolvency. In such cases, according to the beneficiaries, the projects had played a key role in allowing them to continue their commercial activities (see examples in ***Box 3***).

[24] Projects 4, 7, 10, 11, 15, 18, 20, 24, 26, 27, 33 and 37.

[25] Projects 11, 18, 23, and 37.

Box 3 - Examples of projects that helped firms overcome difficult economic periods

Project 37 (Poland OP) - Purchase of equipment: programming software and manufacturing machinery

Total investment cost: 0.3 million euro.
Grant amount: 0.1 million euro from the ERDF.
Implemented from January 2007 to May 2008.
The company specialises in manufacturing plastic toys and metal parts for the car industry. The project helped:

- to provide access to additional financial resources: conditional upon the grant, the company obtained a bank loan to finance the whole project;
- and to modernise the company's design and manufacturing processes.

It was thus able to:

- overcome particularly harsh economic problems;
- diversify its product portfolio and client base (including abroad);
- and create 24 new jobs.

In 2016, the company's economic indicators (turnover, number of employees) showed favourable results.

Project 11 (Czech Republic OP) - Energy-saving project: installation of a new heating system in a manufacturing company

Total investment cost: 0.2 million euro.
Grant amount: 0.2 million euro, including 0.1 million euro from the ERDF.
Implemented between February 2009 and October 2010.
The project has contributed to environmental protection, as the energy savings have led to a reduction in CO2 emissions.
The project was timely, helping the company overcome a very difficult economic period.
It has also contributed to the economic activity and development of the region.
By the time of our audit, all these results still existed at the company.

However, in about one fifth of the projects audited, the direct results were not durable, and they were only partially durable in about a quarter

32. As already shown in ***paragraph 29***, at the time of our on-the-spot visits, we identified durability problems in 19 projects: in eight projects (one fifth of the projects audited), the results were not durable (sometimes lasting not even until the end of the durability period[26] or only until soon thereafter[27]), and in 11 projects they were only partially durable (see examples in ***Box 4***). Nevertheless, innovative projects (e.g. project 1) in quickly developing markets contain higher risks to durability which do not make them less deserving of EU funding.

[26] Project 1.

[27] Within one year after the end of the durability period, projects 10, 14 and 26.

Box 4 - Examples of projects which did not generate durable results

Project 14 (Czech Republic OP) - Construction of a training centre

Total investment costs: 1.4 million euro.
Total grant amount: 0.6 million euro, including 0.5 million euro from the ERDF.
Project implemented from March 2009 to March 2011.
Project objective: create an appropriate space for training the beneficiary's staff and business partners.
At project completion: a training centre with several rooms had been built, which was maintained until the end of the durability period.
Soon after the end of the durability period: the building was transformed into an office building to be used by the company's staff, which was what the beneficiary had actually needed. One room was still dedicated to training (with an occupancy rate of only 20 % at the time of the audit).
New buildings for the purpose of office space were explicitly ineligible for public funding at the time of project selection.

Project 35 (Poland OP) - Installation of a 200 MW biomass co-firing facility

Total investment costs: 2.3 million euro.
Total grant amount: 1.1 million euro including 0.8 million euro from the ERDF.
Project implemented from October 2006 to August 2007.
The project was initiated at a time when there was a strong financial support for renewable energy through national subsidies. The purchased equipment was in use for eight years (longer than required legal durability period). However, the modification of the Renewable Energy Act in 2016 reduced the support to this form of energy. Consequently, the beneficiary in 2016 utilised only 16 % of the facility's overall capacity.
By the time of our audit, the facility had ceased generating renewable energy.

Project 26 (Italy OP) - Setting up of a computer centre

Total investment costs: 9.8 million euro.
Total grant amount: 6.8 million euro, including 3.5 million euro from the ERDF.
Project implemented from March 2005 to February 2008.
Project objective: to create a state-of-the-art computer centre to provide services to the entire region and ensure cooperation with research centres, industry and public bodies in Italy and abroad.
The centre was created and used for different research activities. Cooperation between project partners did not last longer than until one year after project completion.
The main reasons why the project did not ensure durability of results were a change in its business priorities and the difficult financial situation of one of the partners.
The implementing body had noted both of these risks to durability at the selection stage, but this did not prevent the project from being selected for ERDF financing.
Due to a lack of further investment in their upgrading, the core assets (the computers themselves) were no longer in use at the time of the audit.

33. In three cases[28], there were valid reasons for the lack of durability or causes that were beyond the beneficiary's control, e.g. developments in the markets or in national legislation.

[28] Projects 1 (bankruptcy of beneficiary due to increasing competition in the solar cells market), 10 (difficult environment in the business sector concerned) and 35 (changes in the renewable energy legislation).

In another five cases[29], however, the lack of durability was due to management weaknesses or other problems rooted in the companies concerned. In addition, for one project[30], it was not possible to assess durability due to a change of ownership at the beneficiary.

34. A common feature of the OPs under which the projects audited were implemented was creating or maintaining jobs in existing and new companies by improving their productivity, profitability and innovation. This indicator was used, and corresponding targets were set, in 29 of the 41 projects examined (see ***Annex III*** for more details). For the other 12 projects, information about project results was not complete, or their main aim was to address environmental issues and reconvert old industries, so employment was not a priority in those cases and therefore not measured.

35. As regards job creation, in addition to the durability requirements under EU law, the national provisions (where relevant) required the beneficiary companies, through grant agreements, to create a certain number of new jobs or to maintain existing employment levels. These positions had to be occupied, or at least permanently on offer and advertised, until the end of the durability period.

36. Overall, while not all projects achieved their job targets by their completion dates, the results nevertheless turned out to be relatively satisfactory. As shown in ***Annex V***, by project completion employment had increased by an average of 7.7 % in the 41 audited projects: 66.4 % in SMEs and 3.7 % in larger companies. But due to the economic crisis, most of the companies underwent restructuring processes and we found that the jobs created were often lost after project completion (see also ***Annex V***). For instance, under the OP Poland, in project 41 the beneficiary underwent several restructurations related to the optimisation of the production processes which, in total, resulted in a significant reduction of employment. Under the OP Burgenland, in one project the jobs were not safeguarded after durability period and another beneficiary went bankrupt. By mid-2016, the number of employees had

---

[29] Projects 5, 7, 14, 26 and 32.

[30] Project 25.

increased by an average of 1 % for SMEs compared to the situation at project end, but had decreased by 6 % for larger companies (see also ***Annex V***).

37. Where grant ceilings had been set by the MAs for each created post, the grants' cost-efficiency (measured by total investment cost per job created) was likely to be higher. Where beneficiaries exceeded the ceiling they could not receive the grant. Thus the beneficiaries were forced to pay more attention to the size of their investments. However, we found that such ceilings were used only in the two German OPs.

38. As regards the economic prospects of the beneficiary firms analysed, two of them[31] had ceased to exist. In addition, a total of 19 other firms (see ***Annex III***) were, at the time of our audit, encountering challenges with regard to their future economic health, e.g. debt restructuring or balancing, or falling production[32]. Finally, in some cases, the companies' future business prospects depended on the outcome of ongoing research projects and their ability to generate additional capital[33].

Indirect results are difficult to measure and link to funding

39. Only businesses registered and located in a region eligible for ERDF funding can apply for this financial support[34]. Therefore, productive investments should also generate wider benefits for the region concerned (indirect results). Such benefits could include increased employment, entrepreneurship and competitiveness in the region, as well as improved environmental conditions, enhanced innovation and better business survival rates. With a view to economic cohesion, another important goal is to avoid the relocation of economic activities outside the region of origin. The projects should also have potential spill-over effects, e.g. boosting trade for local suppliers or service-providers that have business

---

[31] Projects 1 and 26.

[32] Projects 7, 10, 28, 29, 33, 36 and 38.

[33] Projects 2, 24 and 27.

[34] See for instance Article 5(1) Regulation (EC) No 1083/2006.

relations with the beneficiary firm or helping to increase their skills or knowledge base by providing business advice or networking opportunities.

40. Such indirect results were not specified as a strategic objective in any of the OPs covered by the audit. Furthermore, none of the audited projects included such indirect results as explicit operational objectives. Without such operational objectives or related indicators at project level, it is not possible to aggregate this information in order to measure indirect results at regional level. Without systematic measurement and reporting by the MAs of the spill-over effects for the regions, the causal links between EU-funded investments in the private sector and regional development were difficult to establish.

41. At project level, the achievement and durability of indirect results is inherently difficult to identify. It was, for example, difficult to prove the causal link between the EU projects and their employment effects at regional level. Contributions to Cohesion policy objectives such as innovation, networking and knowledge sharing (see ***paragraph 4***) only featured in the rare cases where projects involved collaboration or networking with higher education institutions.

42. Nonetheless, a number of projects examined did contribute to indirect results. For instance, projects whose direct results were at least to some degree durable (see ***paragraphs 26 to 31***) also generated economic or social benefits for the local communities or the regions in which they were located, including through local suppliers and service providers. Permanent and skilled jobs were created through those investments which also resulted in additional economic activity in the region. Other indirect results were: lower pollution, waste and noise[35], greater energy efficiency[36], the re-vitalisation of brownfield

[35] Projects 33, 35, 36, 37, 39, 40 and 41.

[36] Project 11.

sites[37], and higher turnover beyond the region or increased exports[38]. Furthermore, in many cases, the regions benefited from higher tax revenues thanks to the investments.

43. However, in the rare cases where contributions to indirect results could be identified, they were not always durable. For instance, the stakeholders in the Puglia region had identified structural weaknesses in, and the generally small size of, the SMEs as a drawback for regional development and employment creation[39]. To counter this, one of the OP measures made it a pre-condition that project applicants other than large companies had to form consortia with other SMEs in order to apply for ERDF grants, hoping that the consortia would continue to exist after the end of the projects. However, in two of the audited projects, this objective was not achieved due to the relevant partners' lack of commitment to the project goals and the artificial nature of the consortia (see ***Box 5***).

Box 5 - Examples of non-durable indirect project results

Projects 29 and 31 (Puglia/Italy OP) - Projects implemented by consortia of SMEs

Under one measure of the OP, in order to help strengthen SMEs to enable them to contribute more to driving economic growth, they were only allowed to apply as consortia.
Project 29: total investment costs of 25 million euro.
Grant amount: 16 million euro, including 8 million euro from the ERDF.
Project 31: total investment costs of 5 million euro.
Grant amount: 3 million euro, including 1.5 million euro from the ERDF.

Each project had two partners: a leading company and a second company which played a marginal role. Following the completion of the project, the secondary companies either continued to play a marginal role or were no longer active in the market.
The consortia were dissolved some time after project completion or during implementation.
This shows that the consortia were created artificially to ensure eligibility for the project. As a result, the benefits for the region, particularly economic growth and additional jobs, did not materialise[40].

---

[37] Projects 8, 14 and 15.

[38] Projects 16 and 17 under the OP Lower Saxony and projects 19, 21, 23 and 24 under the OP Saxony.

[39] See the study by the OECD 'Italy: Key issues and policies, OECD studies on SMEs and entrepreneurship' (2014).

[40] This was also stated in a 2014 OECD study: "Italy: Key issues and policies, OECD Studies on SMEs and Entrepreneurship".

Programming, selecting and monitoring projects insufficiently focused on durability

44. There may be numerous reasons why durable project results are achieved (or not), and numerous practices that influence their achievement. Such reasons can be identified both at project level and at a strategic (or programme/OP) level.

Promotion of durability in OP programming was weak

45. Our assessment was based on good and bad practices in relation to the promotion of durability in the OPs, including the consideration of relevant risks. We also examined that extent to which the MAs had analysed the needs of business in the corresponding regions as well as the market failures they encountered. Finally we looked at how the legal durability requirements were implemented.

46. Even at the strategic planning level, we identified various weaknesses which might explain why a significant share of the projects audited did not achieve durable/long-lasting results, or did so only partially. When setting up the OPs, the MAs generally took insufficient action to support durability through appropriate policy measures and conditions beyond the legal requirements (see ***paragraph 12***).

Durability has not been a priority in the OPs

47. Until 2013, but most notably in the programme period ending in 2006, there was a lack of emphasis on durability of results in the OPs. While not a legal requirement, none of the audited OPs addressed the need to ascertain whether investment projects were producing durable results. Although the OPs entailed wider economic development objectives, such as increased employment and improved regional competitiveness, they did not emphasise the importance of long term results. Durability had not been an objective in the OPs or in other strategic documents, and there was no dedicated indicator to measure it.

48. Neither the OPs nor other planning documents of the sectoral business support programmes addressed the risks to the achievement of durability of project results, so did not envisage any mitigation measures. Furthermore, the strategic planning documents did not set out precisely either the desired indirect results for the regions or the mechanisms for measuring them (see also ***paragraphs 40 to 43***).

49. The national authorities did not collect statistics about the survival rates of business entities supported with EU funding or about the reasons for non-durable project results. They did not conduct any benchmarking of the success of businesses supported with public money versus those not receiving any support. They therefore lacked important information when designing the various business promotion schemes under the OPs.

50. The Commission's main aim in providing ERDF co-financing for business support measures was to have an economic impact, the durability of the investments' results was only a side aspect. Thus, its main concern in relation to durability was satisfying the requirements under EU law. The Commission did not provide the MAs with guidance on project selection and design or with any other support for promoting durability of results.

<u>The needs assessments were weak and the actual need for public funding was not properly identified</u>

51. Durability implies that public funding is used for projects that can best contribute to the OPs' objectives. Needs assessments contribute to the overall durability by allowing identifying the activities / businesses that are the most relevant to the attainment of the OPs' objectives as well as the businesses most in need of public funding, those for which no solutions can be found in the market or where market conditions are not conducive to triggering private investments for accompanying their needs ('market failure'). If the beneficiaries did not have a genuine need for public support but instead would have made the same decisions without aid, there is a greater risk of deadweight loss. Also, less beneficiaries genuinely having a need for public funding would receive them hence the overall durability is reduced.

52. While the OPs audited included some elements of a needs assessment, none of them, or the relevant ex-ante evaluations preceding the OPs, included thorough analyses of the companies' actual needs (e.g. those of large vs small companies) in the relevant regions in terms of investment support. No detailed surveys, dedicated research or similar preparatory activities were conducted to identify the needs of the most vulnerable sectors before designing the business support measures. In particular, the needs assessments presented in the relevant Austrian, Italian and Polish OPs regarding business support were weak.

53. In several cases (the Saxony and Lower Saxony OPs, and to a certain extent also the Czech and Italian OPs), the initial situation of the businesses in the regions concerned was described relatively comprehensively, including the particular constraints they faced in investing and creating additional employment. Other OPs lacked clear regional plans for mitigating those constraints, e.g. improving access to finance, leveraging private financing, increasing production, turnover, exports or productivity, and introducing new products. Moreover, there were no plans stating how the ERDF would add value in bringing about longer-term change in the business sector, including deeper restructuring processes needed in parallel to economic effects on employment or business competitiveness.

54. Furthermore, the OPs did not clearly identify the companies' actual need for public funding, or the market failures, in the various regions. As a consequence, sound explanations were lacking as to why certain companies should receive EU funds to invest in their asset bases (e.g. based on the sector, size, business potential or degree of innovation). Except for the Czech central OP, none of the audited OPs provided any justification demonstrating the eligibility of large firms for ERDF co-financing.

55. MAs assumed that practically all firms located in a convergence region, or in an otherwise structurally weak region, were encountering market failures and therefore needed public investment support, which is not necessarily the case. Furthermore, the OPs and investment projects addressed practically no market failures other than (potential) capital constraints or access to loans, whereas SMEs face other disadvantages[41] compared with larger firms.The need for public intervention to combine financial assistance with non-financial support (i.e. diagnostics, advice or access to specialist infrastructure) was neglected.

56. The Commission did not address the risk of deadweight loss in relation to the EU funds when endorsing the audited OPs, for instance by highlighting such risks in the OPs or by providing guidance on how to select relevant projects. Several OPs provided ERDF funds in

---

[41] Such as an asymmetry of business-relevant information, a lack of expertise and contacts, obstacles to market access and improving their position in value chains, and high costs associated with investments in innovation or actions needed in order to leverage private investment. However, these were insufficiently addressed when designing the OPs.

addition to existing national or regional grant schemes supporting enterprises. Based on long-term experience in the Member States, these grant schemes generally provided for meaningful investments. However, the fact that the EU funds complemented national and private investments did not suggest that they were likely to result in a higher number or quality of competing project applications. Moreover, the EU funding did not foster improved durability of project results beyond the legal requirements (e.g. through the requirement of more efficient controls and reporting or the imposition of stricter conditions), as it was not linked to the pursuit of long-term results.

Focus on legal durability requirements

57. The Member States were also responsible for accurately implementing the EU's legal durability requirements. The Commission was responsible for monitoring the Member States' efforts and ensuring compliance with EU law. In the Member States covered by the audit, the rules on the durability of project results were limited to those laid down in EU law (see ***Annex VI***).

58. The Commission and the MAs considered satisfying the legal requirements on durability to be sufficient[42]. Based on this approach, they accepted the OPs in the 2000-2006 and the 2007-2013 programme periods not laying down stricter conditions in order to promote long-term results, such as, where appropriate, extending the durability period beyond the minimum period stipulated in the regulations[43].

59. Finally, with few exceptions, the MAs did not insert critical conditions in the grant agreements on achieving long-term results. Most grant agreements merely repeated the requirements under EU law. They did not promote durability issues through more effective conditions, e.g. setting key binding targets on employment and targets concerning

---

[42] Mainly Article 30(4) of Regulation (EU) No 1260/1999 and Article 57 of Regulation (EU) No 1083/2006.

[43] Except one audited measure in Italy (OP Puglia) where obligation to keep immovable assets was extended to 10 years.

production and productivity levels or competitiveness and innovation, which would have to be maintained for fixed minimum periods of time.

Lack of focus on durability in project selection

60. Regarding the selection procedures under the OPs, we analysed the relevance of the projects to the OP's objectives and we examined the existence and use of criteria that could be linked to durability. We also checked whether other important aspects for the durability of results were taken into account such as innovation or the avoidance of deadweight.

61. The fact that, overall, the audited projects, were consistent with the overarching OP goals is a good indication that the selection procedures allowed for the selection of relevant projects. However, at the selection stage, none of the OPs covered by the audit sufficiently prioritised the achievement of durable results. In particular, the risks to the projects' long term results and the mitigating actions were rarely indicated in the applications or in the documents on the selection procedures. Also, they frequently did not address risks in relation to deadweight.

62. Although selection criteria usually featured a number of objectives and targets (such as boosting the asset base of the companies, improving the business potential and competitiveness, creating new jobs or saving existing ones), project applications were not rewarded for having the potential to generate long lasting results. Instead, and rather unambitiously, the MAs assessed only their potential to maintain the target values for the legally required 3 or 5 years after project end. The MAs did not assess the projects' potential long-term economic results at the selection stage.

63. Also, in most cases, innovation was among the main objectives for productive investment in the OPs examined. However, when evaluating the project applications the projects' degree of innovation was practically disregarded. Often, support was provided to relatively simple industrial processes with a higher risk of being short-lived, thus not generating durable results. We found only eight projects[44] in total under the Italy, Saxony and Czech Republic OPs where beneficiaries had invested in innovative industrial processes

[44] Projects 12, 13, 19, 20, 24, 25, 27 and 31.

or products. EU practices show that beneficiaries are encouraged to create products that are differentiated, innovative, offering added value, to ensure their projects' durability. Projects with a strong potential for innovation and competitiveness are more viable.

64. The risk of deadweight loss was not taken into account when selecting the projects, as the MAs did not consider the private entities' capacity to finance projects themselves or to bear a higher share of the cost.

65. For example, an indication of deadweight loss is where the project promoter has already commenced a project in advance of the grant award, as was the case in six projects audited. In such cases, there is a risk that they would have undertaken the project without the aid or that they had been promised a grant in advance of the project assessment.

66. Another sign of potential deadweight loss is a beneficiary being awarded more than one EU grant within the space of a few years only and this not being taken into account by the selection committee. This was the case in 15 of the 41 audited projects. Various beneficiaries obtained more than one ERDF grant within relatively short periods of time without undergoing affordability checks for each of their requests[45].

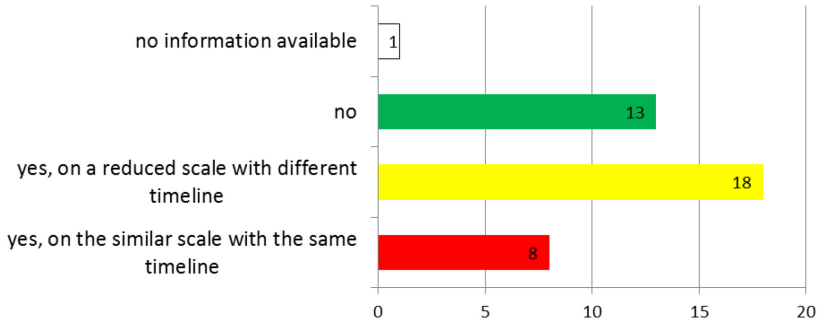
67. Finally, we found that eight of the projects[46] audited could have been completed on a similar scale and to a similar timeline solely with the firms' own funds or by resorting to bank loans without benefiting from grants (see ***Figure 4***). This was the case in particular where the companies were part of a corporate group. As a consequence, such use of public funds has reduced the required private investments. Moreover, the higher the co-financing granted, the higher the impact of deadweight loss. Examples of projects that received grants despite not encountering market failures are also shown in ***Box 6***.

---

[45] For example, a company in the Czech Republic (project 9) had received three grants in five years. The company had even stated in its application that no loans or grants would be needed to implement the project.

[46] Projects 3, 9, 14, 25, 28, 29, 31 and 41.

Figure 4 - Would the projects have been carried out without the EU grants?



Source: ECA's analysis, based on information provided by MAs or project beneficiaries.

Box 6 - Examples of projects not encountering market failures

Project 19 (Saxony/Germany OP) - Extension of a production site (construction of a production hall and purchase of specialised machinery and installations)

Total investment costs: 21.6 million euro.
Total grant amount: 5.4 million euro, including 4.1 million euro from the ERDF.
Project implemented from October 2011 to October 2013.
The project was successful in terms of helping the company in Saxony grow and create robust employment.
However, at the time the investments were being planned and designed in 2007/08, there were no particular market failures or financial gaps which needed to be filled by a public grant. The firm had reached its full production capacity in Saxony and had to make additional investments if it was to expand its operations.
Being part of a large company group, it could have made these strategic investments from its own resources and by taking out loans.

Projects 29 and 31 (Puglia OP) - A printing firm and a manufacturer of aircrafts parts, total investment costs all projects 30.5 million euro, including 9.8 million euro from ERDF)

Total investment costs: 25.1 million euro and 5.4 million euro respectively.
Total grant amount: 16.6 million euro (including 8.3 million from the ERDF) and 3 million euro (1.5 million ERDF).
For these two projects, market failures were not evident.
The beneficiaries were either part of a leading national group and consortia of SMEs enjoying a stable position on the market. And the beneficiaries' revenues had increased over the years preceding the project application.
In light of their financial situation and consolidated position on the market, the beneficiary firms could have obtained bank loans for financing the projects.

Indicators lacking, and project monitoring not focused enough on durability of results

68. Apart from ensuring that the projects were implemented in accordance with their expected scope, budget and timing, it is important that the management and monitoring arrangements focus both on the achievement of the results at project completion and the subsequent durability of these results. Relevant indicators, monitoring and reporting should

give assurance not only that the beneficiary firms have complied with the legal durability requirements, but also that they have taken care of the results and, where possible, further developed them.

A lack of indicators

69. In the 2000-2006 OPs, indicators were not defined, or were not defined in a uniform manner. In the subsequent period, however, the Commission did ask the MAs to introduce core indicators for outputs and results. However, none of these referred to long-lasting results. The indicators were selected by the MAs based on their OP strategies and grant types and did not allow for a comparison of achievements across the regions.

70. Some of the output indicators were not sufficiently specific but only rather generally formulated in the relevant documents in relation to the projects from the 2000-2006 and the 2007-2013 programme periods. Result indicators were also generally poorly defined, in that they did not set out what the support programmes aimed to achieve[47]. A lack of relevant, qualitative and quantifiable indicators to measure outputs and results prevented a comprehensive assessment of the project effects (see examples in ***Box 7***). Even where the result indicators addressed the direct and immediate objectives of the projects to some extent, none of them were used to measure the durability of the project results, activities or operations (see also the section below on project monitoring). While it is important to have performance indicators in place, care has to be taken to avoid unnecessarily high numbers of them[48].

---

[47] This was also criticised in ECA's Annual Report 2016, see paragraph 6.76 in Chapter 6 on Cohesion.

[48] As we reported in Special Report No 2/2017: The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion: spending more targeted on Europe 2020 priorities, but increasingly complex arrangements to measure performance. This report recommends identifying the indicators "which are the most relevant and best suited to determining the impact of EU interventions".

Box 7 - Examples of weaknesses in the setting of performance indicators

The **Lower Saxony and Saxony OPs** referred also to other important programme objectives beyond employment such as improved competitiveness and innovation, productivity, export capacity and trade with other regions, but had no corresponding indicators at project level. Hence, no project data was gathered at project level about such achievements.

The measurement of programme success and the durability of the results under the **Czech central - OP** suffered from a lack of binding result indicators and from poor reporting on non-binding result indicators. Beneficiaries were able to renegotiate (lower) the set target values if they did not fully achieve them.

Under the **Puglia OP**, job creation was the only compulsory indicator in three of the four audited projects. Binding indicators had not been set in one measure (see project 32). Also, the project targets under the **Italian central - OP** were lowered during the approval process (projects 25 and 28), which suggests that initial target-setting was unrealistic.

71. In a few cases, the target values for the indicators were unrealistic: in two cases (projects 19 and 22), the job targets were exceeded by around 100 %, and in one case (project 11), the energy savings made were almost three times higher than those forecast in the planning documents. The mid-term evaluation of the Czech OP concluded that the various targets set at OP level were insufficiently ambitious and therefore recommended increasing them by 200 % or more.

Project monitoring not focused enough on durability

72. Despite the lack of indicators, we found that the monitoring of project implementation was generally appropriate. However, it was very output-based and was not harmonised, either in terms of the monitoring and verification of data or with regard to the availability of electronic reporting tools. The project control and monitoring systems in place in the regions covered by the audit helped to ensure that the outputs were delivered by and large as planned on the project completion date and that the grants had been utilised for purchasing the eligible assets.

73. However, the MAs did not effectively monitor project durability in terms of both the legal requirements and other aspects indicating long-lasting results. At project completion, the beneficiaries were required to provide a final report on their spending on the projects (outputs), but not always on the direct results achieved (see ***Annex VII*** for the various monitoring requirements in relation to the audited OPs). Also, the MAs had not envisaged

how to deal with cases where the results had not yet materialised at project completion and would only show at a later stage.

74. Overall, the monitoring, after project completion, of the legal durability requirements remained limited in scope and varied between OPs. The reporting and monitoring arrangements and the respective duties of the authorities and the beneficiaries after project completion were not always clear or formally specified in administrative documents in all OPs[49]. The MAs did not provide beneficiaries with any guidance or systematic advice concerning the monitoring of durability. Nor did they have IT systems to collect data on the durability, and none of the MAs were able to present robust statistics on compliance with the legal durability requirements. As there was no legal requirement for them to continue doing so, the MAs stopped following up on the evolution of the projects immediately after the end of the legal durability period.

75. The above-mentioned lack of indicators and limited monitoring after project completion prevented the durability of project results from being measured. They were also one reason for the difficulty in identifying the causal links between the EU funds disbursed for private-sector development and the economic effects generated for the businesses and the regions.

Insufficient use of ex-post evaluations

76. We did not find any evaluations of the productive investment programmes that included a specific assessment of the durability of results. Due to the limited scope of the monitoring of the legally required durability, the lack of any IT system to collect the data related to this monitoring and the absence of any long-term monitoring after the end of the durability period no data was available on the durability of the results attained by the ERDF

[49] For instance, for the Austrian OP and also for some specific measures under the Italian central and regional OPs. Also, the Polish authorities approved guidelines for the durability of projects only in 2012, i.e. only for the last part of the 2007-2013 period. These provided durability requirements, specific criteria about the evaluation of durability, a methodology for calculating corrections and recommendations for dealing with specific circumstances (e.g. changes in ownership structure, depreciated assets or modified or reduced outputs and results). However, even these guidelines did not ensure fully effective monitoring to help achieve durable results, as the MA did not have relevant reliable data in its possession.

projects, nor on the economic development of the beneficiary firms or the effects the projects had on the regions. This made it impossible to identify lessons learnt and use them systematically for the relevant regional support schemes under the 2014-2020 ESIF.

77. The Commission did not carry out specific audits or evaluations regarding the durability of the ERDF-financed investments. It had to rely mainly on the data reported in the MAs' annual implementation reports for information on durability and on OP implementation in general. However, most of the data primarily concerned performance in terms of the absorption of the funds. MAs also had to report cases of non-compliance with the legal durability requirements in their annual reports. However, the Commission could not provide any evidence of what action it had taken to follow up on these non-compliance cases.

78. The Commission had incorporated studies on ERDF financial support for large companies and SMEs into its wider ex-post evaluation of 2007-2013 Cohesion policy[50]. While the final reports did not entail direct assessments of the durability of results, they nonetheless contained findings relevant to the objective of attaining long-lasting results from the EU investments in businesses. The most important evaluation findings concerning the two types of businesses were consistent with our audit results and are summarised in ***Annex VIII***. The Commission has not collected statistics on the survival rates of EU-funded businesses at both EU and national level. As a result, it is not yet able to conduct benchmarking between those that receive support and those that do not.

Corrective measures taken in case of failure to achieve targets and comply with durability requirements were not applied consistently

79. We looked at the way in which the MAs applied corrective measures for failing to achieve the targets set or comply with the durability requirements as this also may have an influence on the degree to which durable results were achieved.

---

[50] Ex-post evaluation of Cohesion Policy programmes 2007-2013, Final report – work package 2: 'Support to SMEs – Increasing Research and innovation in SMEs and SME Development', 30 March 2016; and Final report – work package 4: 'Support to large enterprises', 18 February 2016. Summary in Commission staff working document SWD(2016) 318 final of 19 September 2016.

80. The MAs envisaged recoveries for failing to achieve the binding targets set in the grant agreement and failing to comply with the legal durability requirements. However, these measures were not applied in a uniform manner. The amount by which projects had to fall short of their targets for corrective measures to be applied varied, and the amounts recoverable also varied depending on the rules established in the OPs.

81. The two German MAs applied recoveries unless all binding targets (for job creation or safeguarding) had been reached at project completion[51]. The Czech and Polish MAs were more flexible: they recovered funds only if the actual value achieved was less than 95 % (Czech Republic) or 90 % (Poland) of the binding targets set. The Italian authorities, too, recovered funds from projects which had failed to achieve the target values.

82. However, the amounts to be recovered also differed significantly among the OPs. The German and Czech OPs applied a full recovery. For Italian OPs, however, the recovery was proportionate to the value of the assets and the length of time they had been disused. The Italian MA applied a full recovery only where the non-compliance in question represented a substantial breach of the legal durability requirement, in case of non-achievement of employment objectives or if businesses contributed less to project financing than provided for in grant agreements.

83. Frequently, binding targets or relevant deadlines were renegotiable. Where this was the case, the MAs allowed them to be renegotiated before the end of the durability period, in light of the values likely to be achieved. While this was justifiable in certain cases, e.g. due to changing external factors, there is a risk that, if applied almost as a rule, this will render both the earlier selection of project applications for financing and attaining durable results doubtful.

84. In other cases (e.g. in the Czech regional OP), the grant agreements allowed the transfer of the subsidised assets to a third party before the end of the durability period, provided the MA had endorsed this transfer. According to the MA, such transfers only occurred after a thorough assessment of the firm to which the subsidised assets were transferred.

---

[51] Saxony did, however, provide for the possibility of waiving recovery and termination in specifically justified cases.

Nevertheless, such a practice created the risk that a company could end up benefiting from a grant without having to pass the usual project selection procedures.

Some improvements were made in the 2014-2020 ESIF regulations to increase the potential for durability of results

85. We assessed to what extent the Commission had used lessons learnt from previous programmes in its 2014-2020 ESIF legislative proposals and if it had identified technical and organisational constraints on the durability of results in business sector projects, as well as examples of good practice, from before 2014. We checked whether the changes in relation to improved durability of EU investments had been reflected in policy documents and in the legal framework for this support sector. Finally we established if the Commission had provided guidance to the regional authorities in using lessons learnt about durability in their ESIF programming.

The regulatory framework has improved …

86. The Commission, in designing the 2014-2020 ESIF legislative proposals, used the lessons learnt from previous productive investment programmes. A number of essential modifications were inserted in the ESIF regulations. The following provisions in the ERDF Regulation and in the Common Provisions Regulation (CPR)[52] have clarified the regulatory framework in terms of the durability of ESIF-financed operations and are likely to have an impact on enhancing the durability of results:

- Since 2014, the ERDF has, in principle, supported productive investments for SMEs only. SMEs are generally assumed to have greater need of funds and other support, such as business advisory services. Large enterprises may receive grants only for investments in strengthening research, technological development and innovation, or to support the shift towards a low-carbon economy[53].

[52] Regulation (EU) No 1301/2013 and Regulation (EU) No 1303/2013.

[53] Article 3(1)(a) and (b) of Regulation (EU) No 1301/2013.

- The starting point of the five-year durability period has been clarified. It is now either the final payment date or, where relevant, the date set in the State aid decision, which was not clear and therefore not applied in a uniform manner by the MAs previously.

- As regards corrective measures for failing to comply with the legal durability requirements, only one of the following three conditions now needs to apply (rather than all three, as was previously the case) in order to trigger a recovery: (a) a cessation or relocation of a productive activity outside the programme area; (b) a change in ownership of an item of infrastructure which gives a firm an undue advantage; or (c) a substantial change affecting its nature, objectives or implementation conditions which would undermine its original objectives.

- The ESIF contribution is to be repaid if the productive investment is relocated outside the EU within 10 years (instead of 5 years) of the final payment, except where the beneficiary is an SME[54].

87. A recent audit by us[55] found that the Commission and Member States had generally been successful in developing OPs with a more robust intervention logic, i.e. setting out the aims (specific objectives/results) and how these are expected to be achieved (required funding, actions to be undertaken and expected outputs). New rules have been introduced with the aim of using performance indicators more consistently and comprehensively to measure progress towards long-term results. For each priority axis, the OPs (except for technical assistance axes and OPs dedicated to the SME initiative) must specify a performance framework constituted by a subset of indicators laid down in the OPs[56], most of them being already pre-defined in the related regulation.

---

[54] Article 71 of Regulation (EU) No 1303/2013.

[55] Special Report No 2/2017: 'The Commission's negotiation of 2014-2020 Partnership Agreements and programmes in Cohesion'.

[56] Regulation (EU) No 1303/2013, Articles 22 and 96, and Annex II.

… but there are still gaps

88. A new feature of the 2014-2020 regulatory framework that may impact the performance of EU-financed business support activities is the requirement for OPs to fulfil a set of 'ex-ante conditionalities'[57]. These are conditions, based on pre-defined criteria established in the CPR, which are necessary prerequisites for the effective and efficient use of EU funding for all ESI funds. When preparing the OPs for the 2014-2020 period, the Member States had to assess whether these conditions were fulfilled.

89. In order to fulfil the requirements related to ex-ante conditionality 3, which deals with enhancing the competitiveness of SMEs, the national authorities had to undertake specific action to promote entrepreneurship, including under the Small Business Act for Europe[58], prior to being allocated ESI funds to support businesses. Some of these activities are meant to have a positive effect on the organisation of entrepreneurship and, subsequently, on the life expectancy of businesses and their long-term results. However, given that, at the time of the audit, only three years had passed since the beginning of the programme period, their direct impact on the durability of results could not yet be demonstrated[59].

90. However, a proposal by the Commission for an additional ex-ante condition on the implementation of the late payment directive[60], which could have had an important impact on the survival rates of SMEs, was not accepted by the legislative authorities.

91. The OPs for the 2014-2020 period are structured in a way which has resulted in a significant increase in the number of performance indicators for outputs and results that

---

[57] See Article 17 and annex XI of Regulation No 1303/2013 as well as Special Report No 2/2017.

[58] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions - "Think Small First" - A "Small Business Act" for Europe {SEC(2008) 2101} {SEC(2008) 2102} /* COM/2008/0394 final */ of 25 June 2008.

[59] See also Commission Staff Working Document SWD (2017) 127 final of 31.3.2017, 'The Value added of Ex-ante conditionalities in the European Structural and Investment Funds'.

[60] Directive 2011/7/EU.

need to be monitored. In Special Report No 2/2017[61], we recommended harmonising the definitions of the performance terminology concerning 'outputs' and 'results'.

92. In addition, another ECA report[62] states that "the vast majority of indicators constitutes the basis for allocating the performance reserve related to output (57 %), financial indicators (33 %) and key implementation steps (9 %)". Accordingly, the 2014-2020 performance framework remains essentially focused on spending and project outputs, but not on achieving results.

93. When drafting the new regulatory framework, the Commission was unable to use the results from the 2007-2013 ex-post evaluations of ERDF support to businesses (both large and SMEs) as the reports were published only in early 2016. Except for a study by the European Parliament[63], which largely focused on legal aspects, we have not been aware of other significant sources (for instance studies or other assessments by the national authorities) that deal with ERDF support for productive investment and were used for the design of the new ESIF regulations. Overall, therefore the regulations for the 2014-2020 programming period were cast without sufficient information derived from evaluation studies.

94. The Commission has not introduced any other specific measures to promote durability in ESIF productive investment projects in the regions. The new legal framework still does not include provisions requiring the MAs to establish monitoring procedures which specifically allow the collection of robust data on durability. Moreover, it has not given MAs or beneficiaries any relevant guidance in this respect for the new programme period.

---

[61] See footnotes 48 and 55.

[62] Special report No 15/2017 "Ex-ante conditionalities and performance reserve in Cohesion: innovative but not yet effective instruments".

[63] Study 'Aspect of durability in the assessment of effectiveness of support for businesses under Structural and Cohesion Funds', 2013.

CONCLUSIONS AND RECOMMENDATIONS

95. Overall, we conclude that, even though a majority of the projects audited generated durable results, between 2000 and 2013 there was not enough emphasis on the durability of results in the management of the ERDF support to productive investments in European businesses. As a consequence, for one fifth of the projects audited, the results were not durable. We found shortcomings in the programming of the OPs and at the selection, monitoring and evaluation stages of the projects audited.

96. The EU legal durability requirements, in particular the beneficiaries' obligation to maintain purchased assets in their original locations until the end of fixed durability periods of five/three years, were met for all the projects audited. The beneficiary companies had not undergone any substantial modifications or changes in the nature of their ownership, or ceased or relocated their economic activity. In general, the projects audited delivered outputs as planned. The outputs were mostly used until the end of the durability period (see ***paragraphs 20 to 23***).

97. Direct results for the projects audited mostly related to job creation, improved access to finance and loans, increased production and productivity. At the time of our audit, most of the projects audited were still generating the expected direct results. However, for nearly half of the projects audited, we noted that a comprehensive assessment of durability at the end of the durability period was not feasible. As most MAs focused solely on job creation, and the results were not monitored and reported adequately after project completion, relevant information on the extent to which they had been achieved and on their durability was scarce (see ***paragraphs 26 to 31***). For one fifth of the projects, the results achieved at the time they were completed did not last until the end of the durability period, or lasted until only soon thereafter (see ***paragraphs 32 to 38***).

98. Indirect results, such as building up knowledge bases, networking with higher education institutions, increasing local tax revenues and benefiting the regions, were rarely prioritised (see ***paragraphs 40 to 43***).

99. There were numerous reasons for the non-achievement of durability of project results. While in a few cases, the reasons were clearly beyond the beneficiaries' control (due to

exogenous factors such as the economic crisis) or due to management weaknesses, in other cases it was due to insufficient focus on durability at different levels of the management of EU funds.

100. At programme level, the achievement of long-lasting results from productive investments was not promoted effectively in the underlying OPs or in other relevant regional strategic documents. The achievement of long-lasting results was not a priority. The specific needs of the businesses in different sectors and of differing sizes (market failures) were not properly identified. This resulted in risks of deadweight loss in the programmes. The EU's involvement generally did not ensure better durability of results (see ***paragraphs 46 to 59***).

Recommendation 1 - Promoting durability of the results

(a) The Member States should promote the achievement of durable results from ERDF-financed productive investments at the OP programming level, in particular through:

- more focus on identifying and mitigating risks to the achievement of durable results,
- better analysis of the needs of different types of businesses, including the need for public funding, in order to avoid deadweight loss.

Target implementation date: when preparing the OPs for the post-2020 period.

(b) During the approval process of OPs, the Commission should pay particular attention to how Member States address durability of outputs and results.

Target implementation date: during the approval process of individual OPs for the period post-2020.

101. As regards project selection, the selection criteria did not adequately reflect the need for ERDF-financed projects to achieve long-lasting results, introduce innovative industrial processes or to maximise their financial leverage effects. The risk that companies may benefit from EU funding even though they could have carried out their project without such additional funding, or with less funding, was not sufficiently mitigated (see ***paragraphs 61 to 67***).

Recommendation 2 - Taking durability into account in selection procedures

The Member States should improve their selection procedures and criteria so that the risk of deadweight loss is taken into account and only productive investment projects with the potential for adequate long-lasting results are supported.

Target implementation date: when preparing the next selection procedures.

102. The MAs did not pay sufficient attention to measuring durability of results. Not all MAs set appropriate indicators for measuring the performance of the EU co-financed interventions and their results in the longer term. Where relevant indicators were defined, they mostly measured only one aspect of the benefits generated by the projects, it was not mandatory to achieve the targets set, or they were not used in a uniform manner to measure performance. This prevented the authorities from obtaining valuable information on durability of results from the projects and from the programmes as a whole (see ***paragraphs 69 to 71***).

103. While the MAs' monitoring of project implementation, based on the outputs, was generally appropriate, their monitoring and reporting of results at project completion and over the course of the durability period were mostly poor. This was partly due to weak use of performance indicators, and partly due to the lack of monitoring and reporting procedures or their inconsistent application. There was no follow-up on long-lasting results. No specific ex-post evaluations were commissioned under the OPs covered by our audit. Also the Commission did not carry out specific audits/studies on the durability of the EU-financed investments (see ***paragraphs 72 to 78***).

Recommendation 3 - Emphasising durability in monitoring and reporting

The Member States should conduct appropriate and consistent monitoring and reporting:

- using pre-defined and relevant indicators for both outputs and results, as well as for measuring long-lasting results at OP level, while keeping the number of indicators manageable;

- establishing monitoring and reporting procedures to be used at project completion and throughout the durability period, which should be described in the grant agreements;
- improving the collection and use of relevant data.

Target implementation date: for ongoing projects – as soon as possible; for subsequent projects – when preparing the selection procedures.

Recommendation 4 - Taking durability into account in evaluations

The Commission and the Member States should make sure that ex-post evaluations at OP or EU level look into the different aspects of the durability of results achieved at the end of the durability period and beyond in a more systematic manner. The evaluation results should be used when designing future EU business support schemes.

Target implementation date: for future ex-post evaluations to be carried out.

104. Grant agreements did not systematically provide for corrective measures for not achieving the expected results at project completion and/or at the end of the durability period. Where these were provided for, they were applied inconsistently, with varying degrees of flexibility between OPs (see ***paragraphs 80 to 84***).

Recommendation 5 - Consistently applying clear corrective measures

(a) The Commission should ensure that Member States apply clear corrective measures including recovery arrangements consistently where projects fail to comply with EU legal durability requirements.

Target implementation date: immediately.

(b) Where Member States have set binding targets at project level, they should establish clear corrective measures and apply them consistently.

Target implementation date: as soon as possible, and before the end of 2019.

This Report was adopted by Chamber II, headed by Mrs Iliana IVANOVA, Member of the Court of Auditors, in Luxembourg at its meeting of 7 February 2018.

For the Court of Auditors

Klaus-Heiner LEHNE

President

ANNEX I

ERDF allocations to productive investments, 2000-2020 per MS

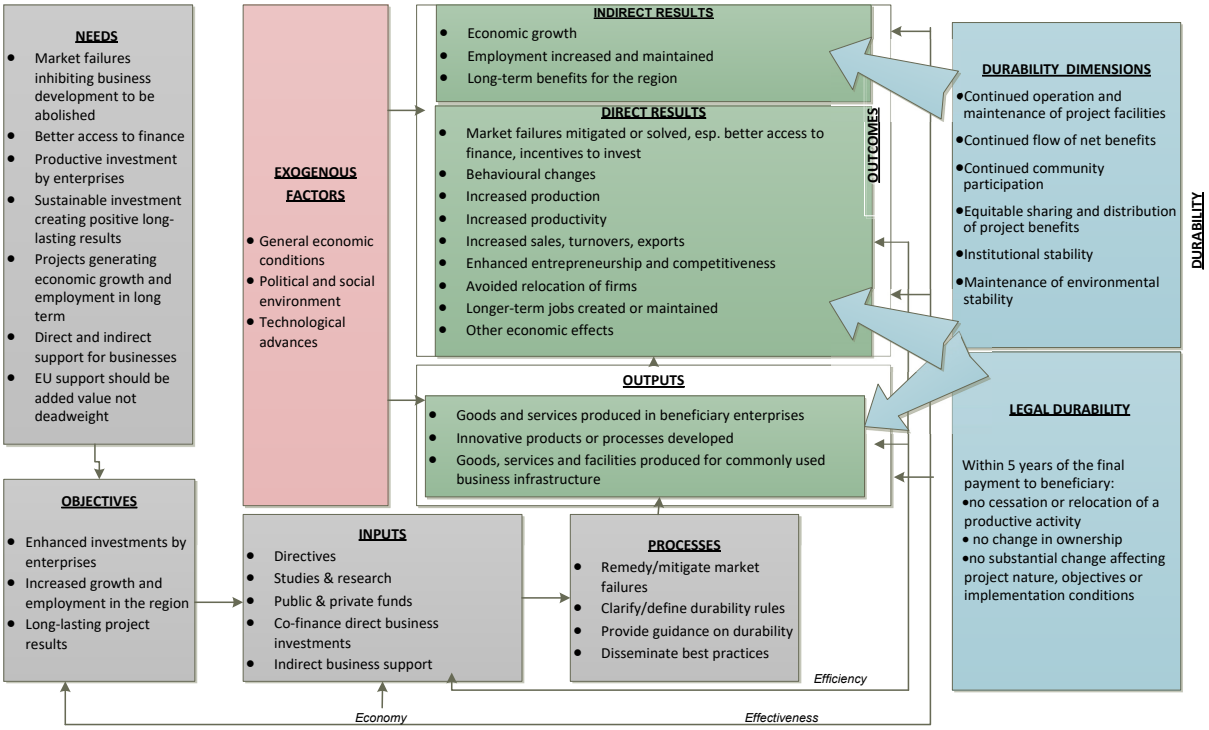
(million euro)

	2000-2006		2007-2013		2014-2020		Total
	Support to large enterprises	Support to SMEs	Other enterprise support	Support to SMEs	Support to large enterprises	Support to SMEs	
AT	181	297	297	28	137	260	1 200
BE	80	259	319	70	168	355	1 250
BG	-	-	474	96	250	749	1 568
CY	-	12	77	1	22	112	225
CZ	30	193	1 902	390	1 325	1 882	5 722
DE	905	3 973	3 455	665	1 894	3 133	14 025
DK	8	29	70	43	88	109	347
EE	2	19	165	103	228	425	943
ES	1 183	2 878	3 128	718	2 313	3 489	13 709
FI	81	389	235	139	290	278	1 413
FR	252	1 225	729	427	849	1 553	5 035
GR	150	1 308	3 171	1 870	859	1 441	8 799
HR	-	-	28	38	382	992	1 440
HU	30	189	3 005	-	421	4 223	7 868
IE	-	88	55	481	35	80	738
IT	710	4 093	2 863	2 177	2 870	3 755	16 469
LT	19	42	333	336	518	458	1 707
LU	0	0	1	0	3	-	5
LV	39	89	385	157	122	320	1 113
MT	-	1	28	12	30	46	117
NL	6	221	83	116	192	228	846
PL	144	561	7 950	1 122	3 678	10 424	23 879
PT	874	1 419	4 192	472	2 142	4 152	13 250
RO	-	-	1 491	221	575	849	3 136
SE	1	365	247	180	234	371	1 398
SI	9	33	162	245	231	592	1 272
SK	6	15	487	131	972	1 058	2 668
UK	173	4 079	1 323	775	1 064	2 595	10 009
TC/CB	28	497	123	266	1 160	673	2 748
Total	4 913	22 276	36 777	11 280	23 051	44 602	
Grand Total	**27 189**		**48 056**		**67 653**		**142 898**

Note: In 2007-2013 period other enterprise support includes following intervention codes: advanced support services to firms and groups of firms (05), investments in firms directly linked to research and innovation (07), other investment in firms (08).
Countries marked in green are those which were covered by the audit.
TC/CB stands for Territorial or Cross-border cooperation programmes.
Source: European Commission.
2000-2006: Infoview
2007-2013:
http://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/expost2013/wp13_2_db_nuts3_ae.xlsx
2014-2020: https://cohesiondata.ec.europa.eu/dataset/ESIF-2014-2020-categorisation-ERDF-ESF-CF/9fpg-67a4

ANNEX II

Intervention logic - The durability of the results of ERDF productive investment projects



Source: ECA, based on analysis of relevant EU programmes.

ANNEX III

Information about the projects audited - achievement and durability of project outputs and results

Project No	MS/ OP	Project budget (ca. million euro)	National co-financing (ca. million euro)	ERDF (ca. million euro)	Project completion date	End date of legal durability[1]	Major project outputs	Outputs fully achieved at project completion?	Achieved outputs existed and used until end of durability period?	Achieved outputs existed and used as at the time of the audit?	Main planned direct results to measure project achievements	Results achieved at project completion?	Results durable until end of durability period?	Results durable as at the time of the audit?	Beneficiary's economic health not at risk in future? (as at the time of the audit)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	AT/ OP Burgenland 2000-2006	46.4	1.8	12.1	Nov 2008	Nov 2013	Solar cells production facility				113 new jobs (target later reduced to 90) and 140 new jobs until end 2009. No other result indicators		Activity ceased due to exogenous factors		
2		1.4	0.2	0.4	Mar 2008	Nov 2013	Office building and the research hall in the technological centre				No result indicators	x	x		
3		13.0	0.8	2.5	May 2008	May 2013	Plastic bottles recycling facility				34 new jobs No other result indicators	x	x		
4		1.0	0.07	0.1	Mar 2008	Nov 2012	Powder coating and electrostatic systems for the production of metal components				45 maintained jobs: (out of this, 4 new jobs) No other result indicators	x	x		
5		15.9	1.2	2.9	Dec 2007	Feb 2006	Rotation printing machine in the offset printing company				168 maintained jobs: No other result indicators	x	x		
6		14.5	1.1	1.8	Dec 2007	Oct 2012	Printing machine, adhesive binder and other machinery in the offset printing company				Jobs maintained. Due to reorganisation process the company planned to reduce jobs from 243 to 229	x	x		
7	CZ / ROP 2007-2013	0.5	0.1	0.2	Mar 2009	Apr 2014	Rebuilding and extension of a hotel and introduction of new services - no. of new built or reconstructed beds total, no. of newly certified accommodation facilities, etc.				Number of newly created jobs - 2				
8		2.9	0.2	0.8	Sep 2009	Jan 2015	Construction of a hotel - no. of new built or reconstructed beds total, no. of newly certified accommodation facilities, etc.				Number of newly created jobs in tourism - 17, revitalisation of the brownfield site				

9	CZ / OPEI 2007-2013	0.5	0.1	0.2	Oct 2010	Oct 2013	Development of machinery for manufacturing products in the hydraulics sector – purchase of 11 different machines				No planned binding results (according to the business plan - 4 new jobs)	x	x		
10	CZ / OPEI 2007-2013	0.5	0.1	0.2	Dec 2009	Dec 2012	Expansion of ICT capacity in the company: purchase of hardware and software				No planned binding results (according to the business plan - 1 new job)	x	x	Exogenous factors	
11		0.2	0.1	0.1	Oct 2010	Oct 2013	Energy savings measures: new controllable boiler room, gas heating facilities with new heat distribution systems, solar heating of warm service water				Energy savings				
12		1.	0.1	0.3	Jun 2010	Jun 2013	New machinery for the production of newly developed recuperation exchangers				No planned binding results	x	x		
13		3.7	0.2	1.3	Sep 2011	Sep 2014	Creation of a development centre for medical products – renovation of a building, creation of a laboratory and purchase of equipment				No planned binding results	x	x		
14		1.4	0.1	0.5	Mar 2011	Mar 2014	Building of a training centre of a SME – construction, purchase of equipment for individual training rooms				No planned binding results	x	x		
15		0.4	0.1	0.2	Jun 2010	Jun 2013	Construction of a production hall of SME in the steel ware sector				No planned binding results (2 jobs planned, according to application)	x	x		
16	DE / OP Lower Saxony 2007-2013	1.1		0.3	Apr 2009	Apr 2014	Extension of a site for the production of meat products through acquisition of a fully equipped production plant				16 new permanent jobs Investments for assets in the manufacturing industry				
17		10.0	0.5	1.1	Jan 2011	Jan 2016	Purchase of a fully equipped site for the production of vegan food products				61 saved permanent jobs. Investments for assets in the manufacturing industry				
18	DE / OP Saxony 2007-2013	0.3	0	0.1	May 2009	May 2014	Extension of a blacksmith production hall. Purchase of a photovoltaics installation, machinery and office facilities				1 new permanent job				
19		21.6	1.3	4.1	Oct 2013	Oct 2018	Extension of a production site for sanitary installations; construction of a production hall and purchase of machinery and equipment				57 new permanent jobs				
20		6.2	1.4	1.4	Feb 2012	Feb 2017	New site for the testing of new products in the hydraulics sector; construction of a hall and purchase of machinery and other installations				18 new permanent jobs				
21		1.1	0.1	0.3	Dec 2010	Dec 2015	Extension of a plant for the production of parts made from plastics materials for the car industry and other industries; new hall				4 new jobs (3 permanent jobs plus 1 vocational training)				

							and purchase of machinery and other installations								
22	DE / OP Saxony 2007-2013	7.1	1.4	1.4	Jun 2012	Jun 2017	Extension of an existing and construction of a new site for the production of meat products				71 new permanent jobs				
23		2.7	0.6	0.9	Sep 2012	Sep 2017	Diversification / extension of plant for the development and manufacturing of industrial foils. New hall and purchase of machinery and other installations				Maintaining 44 jobs (42 permanent plus 2 vocational training)				
24		2.3	0.4	1.1	Jan 2011	Jan 2016	R&D for the creation and utilisation of highly loaded ions for use in medical therapies and analysis of surface materials				Maintaining 5 R&D jobs (in connection with the exploitation of project results 25 jobs were expected to be created - not achieved as of June 2016)				
25	IT / PON R&C 2007-2013	4.6	2.7	1.0	Nov 2004	Nov 2009	Creation of a prototype plant with activities of research and experimentation of an antivirus film				Creation of 4 new jobs. A number of non-binding results planned	x	x		
26		9.8	3.3	3.5	Feb 2008	Feb 2013	Creation of a centre for computational engineering with a virtual reality lab and an associated research and training programme				No planned binding results A number of non-binding, general results planned	x	x		
27		6.4	2.2	2.2	Feb 2010	Feb 2015	Laboratory to create prototypes of organic lights				No planned binding results (a number of non-binding results planned, including 20 new jobs)	x	x		
28		2.2	1.5	0.5	Dec 2009	Jun 2019	A production centre for frozen food				No planned binding results (a number of non-binding results planned, including 26 new jobs)	x	x		
29	IT / POR Puglia 2000-2006	25.1	8.3	8.3	Jun 2008	Jun 2013	Rotary printing machine and new bindery production line				Creation of new 16 jobs. A number of non-binding results planned of which some were general and with no quantitative target	x	x		
30		26.2	5.4	5.4	Sep 2008	Sep 2013	Glass packaging production line				Creation of 16 new jobs A number of non-binding results planned	x	x		
31		5.4	1.5	1.5	Jun 2008	Jun 2013	Design and construction of industrial buildings and related infrastructure for manufacturing of equipment for aircrafts; equipment for quality control				Creation of 12 new jobs A number of non-binding results planned	x	x		
32		0.1	0.02	0.02	Jun 2006	Jun 2011	Equipment for hairdresser and solarium				No planned binding results A number of non-binding results planned, including 1 new job	x	x		
33	PL / OP- ICE 2004-2006	16.6	3.3	5.0	Sep 2011	Sep 2016	Charcoal production facility and electricity generation facility				Net employment growth -125 new products value of goods charcoal production, etc.				

34	PL / OP- ICE 2004-2006	0.6	0	0.3	Nov 2007	Nov 2012	Integrated system for the management of the production of lighting fixtures for different purposes				New jobs – 10 Increase in revenue – 50 % New products – 6 Increase in turnover – 6 % Increase in energy efficiency – 0.02				
35		2.3	0.3	0.8	Aug 2007	Aug 2012	Installation of facilities for generating electricity from biomass including fuel storage facilities				Reduction of SO2, CO2, particulate emissions; reduction of waste going to landfill			Exogenous factors	
36		8.5	1.28	2.9	Mar 2008	Mar 2013	Facilities for recycling waste from obsolete ammunitions including shelters for the storage of waste products				20 new jobs; hazardous waste generated during processing				
37		0.3	0	0.1	May 2008	May 2013	Design and production equipment in a company manufacturing car parts and toys				27 new jobs, new products, new services, value of production as a result of project, etc.				
38		0.6	0	0.2	Apr 2008	Apr 2013	Production hall and machinery for manufacturing products made from concrete used for construction				5 new jobs, new contracting partners, new products, increase in revenue, reduction in operating costs, etc.				
39		93.8	0	11.2	Feb 2009	Feb 2014	Facilities for producing coke: coking battery, coal tower, cooling tower, system to remove coal dust from the battery, IT systems				Safeguard of jobs Increase in production capacity Reduction in emissions				
40		0.5	0.08	0.2	Jun 2008	Jun 2013	Equipment for the manufacturing of chemical products: nozzles, pumps, control and measurement instruments				4 new jobs, emissions reduction				
41		35.1	1.3	4.2	Sep 2008	Sep 2013	Flue-gas desulphurisation unit in an electricity production enterprise				Reduction in SO2 and particulate emissions				

[1] According to legal durability requirements set by EU and national law.

Legend: See ***Annex IV***.

Source: ECA analysis, based on information gathered during the audit.

ANNEX IV

Key to Annex III

	Outputs fully achieved at project completion?	**Achieved outputs existed and used until end of durability period?**	**Achieved outputs existed and used as at the time of the audit?**	**Results achieved at project completion?**	**Results durable until end of durability period?**	**Results durable as at the time of the audit?**	**Estimated beneficiary's economic health prospects (as at the time of the audit)**
Good	Outputs achieved as planned	Co-financed assets existed and used until end of durability period	Co-financed assets existed and used	Results achieved as planned. Assessment based on sufficient and reliable performance indicators	Results existing until end of durability period: project generated an acceptable level of financial and economic return against costs; increased production, productivity, employment, competitiveness and entrepreneurship; enhanced innovation	Results existing: project generated an acceptable level of financial and economic return against costs; increased production, productivity, employment, competitiveness and entrepreneurship; enhanced innovation	Beneficiary's operations profitable and future outlook positive
Moderate	Outputs achieved, but not fully compared to what was planned	Co-financed assets existing and used until end of durability period, but below capacity	Co-financing assets existed and used, but below capacity	Results achieved but not fully in line with plan	Results existing only partially until end of durability period (production, productivity, employment decreased compared to situation at project end)	Results existing only partially (production, productivity, employment decreased compared to situation at project end)	Risks related to future operations (e.g. issues of debt restructuring or deficit balancing, future business prospects depended on outcome of other projects or possibility to generate additional capital)
Poor/activity ceased	A significant part of outputs planned not achieved	A significant part of co-financed assets not used until end of durability period	A significant part of co-financed assets not used	A significant part of results planned not achieved	A significant part of results not existing or activity ceased until end of durability period	A significant part of results not existing or activity ceased	Significant risks related to future operations (see issues above or beneficiary bankrupted, supported activities ceased or very bad future prospects)
x indicates that not full information available or no adequate indicators set				Information about results not measurable	Information about results not measurable; information not fully available	Information about results not measurable; information not fully available	
Assessment not possible due to a lack of information							

ANNEX V

Variation in the numbers of jobs in the audited projects

OP	Number of employees, SMEs						Number of employees, larger enterprises					
	before project	**at project end (in total)**	**variation between situation before project and at project end**	**at project end (as a result of project)**	**as of 1 June 2016**	**variation between project end and situation as of 1 June 2016**	**before project**	**at project end (in total)**	**variation between situation before project and at project end**	**at project end (as a result of project)**	**as of 1 June 2016**	**variation between project end and situation as of 1 June 2016**
OP Burgenland	45	192	+ 326 %	135	114	- 40 %	376	413	+ 10 %	0	319	- 23 %
Czech Republic												
OP South East	12	40	+ 233 %	19	53	+ 33 %	-	-	-	-	-	-
OPEI	325	352	+ 8 %	4	395	+ 12 %	-	-	-	-	-	-
Germany												
OP Lower Saxony	24	109	+ 354 %	85	125	+ 15 %	-	-	-	-	-	-
OP Saxony	60	89	+ 48 %	29	107	+ 20 %	286	437	+ 53 %	151	766	+ 75 %
Italy												
Central OP	0	19	N/A	19	19	0	160	163	+ 2 %	3	163[1]	-
OP Puglia	59	86	+ 45 %	27	72	- 16 %	319	354	+ 11 %	35	532	+ 50 %
OP Poland	263	424	+ 61 %	159	441	+ 4 %	10 656	10 871	+ 2 %	14	9 691	- 11 %
Total	**788**	**1 311**	**+ 66.4 %**	**477**	**1 326**	**+ 1 %**	**11 797**	**12 238**	**+ 3.7 %**	**203**	**11 471**	**- 6 %**

[1] In one project under OP Italy it was not possible to verify the maintenance of the jobs created. It was however assumed that all jobs (163) remained as of June 2016.

Note: The figures in the table show the results for the projects audited under the relevant OPs.

Source: ECA analysis, based on information gathered during the audit.

ANNEX VI

Legal durability conditions set by the managing authorities

Specific aspect	AT	CZ (Central)	CZ (ROP)	DE (Lower Saxony)	DE (Saxony)	IT (Central)	IT (ROP)	PL
1. National legislation	***Partially*** In line with EU regulations, but obligations regarding monitoring were lacking.	***Yes*** In line with EU regulations for the purchased assets. The durability period was also valid for the jobs created or saved.	***Yes*** In line with EU regulations for the purchased assets. The durability period was also valid for the jobs created or saved.	***Yes*** In line with EU regulations for the purchased assets. The durability period was also valid for the jobs created or saved.	***Yes*** In line with EU regulations for the purchased assets. The durability period was also valid for the jobs created or saved.	***Partially*** In line with EU regulations, but provisions not transposed in consistent manner.	***Partially*** In line with EU regulations, but provisions not transposed in consistent manner.	***Partially*** In line with EU regulations, but obligations regarding monitoring were lacking.
2. OPs' focus on long lasting project results	***No***	***No***	***No***	***Partially***	***Partially***	***No***	***No***	***No***
3. Specific conditions in the financing agreements	***Partially*** Obligation to keep investment for 5 years after project completion. No systematic controls on durability requirements.	***Partially*** Obligation to keep investment for 3 years (SME) after project completion. Reporting for the first two closed accounting periods, not the whole durability.	***Yes*** Obligation to keep assets for 5 years for all enterprises, reporting during the whole durability period.	***Yes*** Detailed conditions for being eligible – types of investment and employment-related conditions. Obligation to keep invested assets and jobs for 5 years. Detailed reporting obligations.	***Yes*** Detailed conditions for being eligible – types of investment and employment-related conditions. Obligation to keep invested assets and jobs for 5 years. Detailed reporting obligation.	***Partially*** Obligation to keep investment for 5 years after completion or until loan is repaid. In two out of three audited measures reporting was foreseen only during first two years after project.	***Partially*** Obligation to keep investment for 5 years after completion, in one measure – to ten years for immovable assets. In one measure reporting – only during first two years after project completion. No reporting foreseen in one measure.	***Partially*** Obligation to keep investment for 5 years after completion. In one measure – to provide reports on results annually within 5 years after completion.
4. Guidance or systematic advice from the MA / Implementing Bodies concerning the monitoring of durability	***No***	***Partially*** Guidance for applicants and beneficiaries, monitoring not for the entirety of the durability period.	***Yes*** Guidance for applicants and beneficiaries, monitoring for the whole durability period, each project checked on-the-spot.	***Yes*** Effective monitoring mechanisms established and guidance provided.	***Yes*** Effective monitoring mechanisms established and guidance provided.	***Partially*** No specific guidance; only guidance for one measure refers to the maintenance requirements.	***No***	***Partially*** Guidance approved in 2012, but no exhaustive monitoring required.

Source: ECA's analysis.

ANNEX VII

Monitoring and reporting procedures of legal durability requirements

MS	OP	Monitoring by the MA	Reporting by the beneficiaries
AT	OP Burgenland 2000-2006	**Moderate:** The MA and IB did not foresee systematic controls of durability requirements and did not conduct targeted checks in the course of the durability period. For a three-year period after project completion the IB checked on achievement and maintenance of the job target based on data from the social insurance fund and on the financial accounts of the supported companies. IT system not in place for monitoring results for the whole durability period.	**Poor:** No information was required from the beneficiaries in order to check project results for the remainder of the durability period.
CZ	OP Enterprise and Innovation 2007-2013	**Moderate:** The MA and IB did not monitor the projects' performance for the whole durability period but only for the first two financial years closed after the project completion. The selection of the projects to be checked during the implementation and durability period was based on a sample.	**Moderate:** Although the beneficiaries were obliged to report on the binding (mainly outputs) and non-binding indicators, they did not report on the achieved values of the non-binding indicators consistently. They were not required to submit information on project performance for the whole durability period. Delayed submission of the report about project results was not sanctioned.
CZ	Regional OP South-East 2007-2013	**Good:** The MA required information on both results and outputs to be provided in the monitoring reports. Both types of indicators were binding. During the durability period, the MA carried out an on-the-spot control of each project at least once. Monitoring reports were to be submitted every year of the durability period and covered the whole durability period.	**Moderate:** The beneficiaries submitted information on both output and result indicators in the annual monitoring reports throughout the whole durability period. Delayed submission of the report about project results was not sanctioned.
DE	Lower Saxony OP 2007-2013	**Good:** Adequate monitoring procedures were introduced by the authorities to ensure project delivery in line with the provisions and conditions in place and also for obtaining reasonable assurance about achieving durable results. Systematic checks based on sampling were conducted.	**Good:** Standardised and effective reporting by the beneficiaries was in place and enforced, covering project completion and thereafter the full durability period.
DE	Saxony OP 2007-2013	**Good:** Adequate monitoring procedures were introduced by the authorities to ensure project delivery in line with the provisions and conditions in place and also for obtaining reasonable assurance about achieving durable results. Systematic checks based on sampling were conducted.	**Moderate:** Standardised and effective reporting was in place covering project completion and thereafter the durability period. The final durability report was due three months before the end of the 5-year durability period for practical reasons; while not in line with regulations, this did not impact negatively on durability of results directly.
IT	Central OP (PON R&C 2007-2013)	**Poor:** For the audited projects, the managing authority did not have information on the use of projects during the entire durability period and did not request such information from the beneficiaries. And overall, not sufficient evidence was obtained for assuring about full compliance with durability obligations in the projects.	**Moderate:** Depending on the measure, compulsory self-declarations on maintenance of durability by the beneficiaries: (a) for the whole durability period; (b) no self-declaration at all; (c) only a one-off self-declaration on results two years after project completion.
IT	OP Puglia (POR Puglia 2000-2006)	**Poor:** Systematic controls on durability requirements were not foreseen. For the audited projects, the managing authority did not have information on the use of projects during the entire durability period and did not request such information from the beneficiaries. IT system not in place for monitoring results after project completion.	**Moderate:** Depending on the measure, the managing authority required the beneficiary to transmit: (a) a self-declaration for two consecutive years following the completion of the project (in case the beneficiary was a large enterprise or a consortium of SMEs - or (b) a one-off self-declaration (if the beneficiary was a microenterprise).

PL	Improvement of the Competitiveness of Enterprises 2004-06	**Moderate:** Different monitoring procedures were applied by different IB: (a) annual reporting on results during the durability, or (b) sample checks of 5 % of projects completed five years before the year of the checks. This procedure, however, did not ensure systematic monitoring of the results achieved and maintained for the whole durability period. IT system not in place for monitoring results during the whole durability period.	**Poor:** In one measure beneficiaries were required to provide annual reports on durability of project results five years after project completion (as required by national legislation), but no such reporting was required for two other measures.

Source: ECA's analysis.

ANNEX VIII

Evaluation results concerning SMEs and large enterprises

SMEs
- The prevalent pattern of intervention was to reach the widest possible number of beneficiaries, with little indication of the target beneficiaries or the specific objectives the projects were expected to achieve. - In most cases, the projects sought to increase the main production factors of enterprises such as capital, labour and R&D expenditure. But little attention was dedicated to the final objective pursued or the results expected, e.g. in terms of increasing exports, productivity or sales. - The majority of beneficiaries belonged to economic sectors classified as low-tech, e.g. manufacturing or wholesale trade. This indicates that significant funds supported the catching up or survival of SMEs in traditional sectors rather than promoting growth and innovation poles. - Even if a shift from non-repayable to repayable aid was observed, grants still remained the most common form of delivery. Simple grants are commonly considered to be traditional, less innovative (and possibly less cost-efficient) than financial instruments. - Changes were recorded in terms of economic performance. The ERDF grants accelerated or anticipated the SMEs' investment plans, thus helping them to increase turnover, profitability and exports. But the most significant change triggered by the ERDF could be behavioural changes to the way of doing business rather than in the immediate materialisation of economic results which were however not emphasised in the projects. - There has not been a focus on the result orientation of the intervention logic addressing specific expected changes, and with the implementation of conditional grants committing beneficiary enterprises to well-defined objectives (e.g. in terms of employment creation or preservation). - Monitoring was not adapted to the role played by the ERDF in supporting SMEs. The choice of indicators was insufficiently aligned with the added value of the ERDF. Measurement systems suitable for reporting and assessing the level of achievement, based on data collection at firms, were lacking.
Large enterprises
- The rationale for the support to large enterprises remained unclear and OPs were not explicit about the planned direct and indirect benefits. Moreover, previous studies had not revealed the effectiveness and full scope of benefits of large enterprise support. - The ERDF support had often little influence on corporations' investment decisions, notably whether to invest in the EU or overseas.

- Whereas generally production capacities and productivity of the large project beneficiaries have risen, and also direct results were achieved (e.g. an increased demand for jobs), longer-term results beyond the five-year durability period have been less obvious. Investments in industries with closer ties to the existing industrial structure have likely attained more durable benefits. The nature of the investment and the operating history of the enterprises in the region affected the level of durability and it also depended on the industrial sector as well the differing lengths of the investment life cycles and capital needs.

- Multiple granting has been a common feature between in 2007 and 2013 whereby the actual needs or incentive effects for the large firms to invest in the region concerned was often not explicit.

- Whereas it was found that durability of support could be successfully promoted through regional incentives, supplier development programmes and multiple funding, it was nevertheless stressed that strategic capacities of managing authorities and other stakeholders in policy development and implementation, including valid project selection linked to the long-term strategy of the region, were key to the success of the business support.

Source:

Ex-post evaluation of Cohesion Policy programmes 2007-2013:

- Final report – work package 2: 'Support to SMEs – Increasing Research and innovation in SMEs and SME Development', 30 March 2016; and

- Final report – work package 4: 'Support to large enterprises', 18 February 2016. Summary in Commission staff working document SWD(2016) 318 final of 19 September 2016.

REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS

"EU SUPPORT FOR PRODUCTIVE INVESTMENTS IN BUSINESSES – GREATER FOCUS ON DURABILITY NEEDED"

EXECUTIVE SUMMARY

IV. In addition to the legislative changes 2007-2013, the EU approach to durability has improved also through the emphasis put on strategic planning of major projects through the requirement of ex-ante cost-benefit-analysis, as well as in the Commission's ex-post evaluations at programme level for cohesion policy.

VII. The Commission takes into account the aspects of durability through the selection criteria approved at Monitoring Committee level where the Commission takes place in an "advisory capacity". The Commission does not collect, monitor or analyse indicators at project level.

In the programming period 2014-2020 the Commission promotes a longer term perspective with the introduction of the performance orientation in all ESI Funds programmes and with the reinforced emphasis on the evaluation of impacts ex-post for all EU interventions. Impact evaluations are better suited to capture the aspects of durability.

VIII.

First bullet: The Commission notes that this recommendation is addressed to the Member States.

Second bullet: The Commission accepts this recommendation.

Third bullet: The Commission notes that this recommendation is addressed to the Member States.

Fourth bullet: The Commission notes that this recommendation is addressed to the Member States.

Fifth bullet: The Commission accepts this recommendation.

Accordingly, in its future ex-post evaluations, the Commission will reinforce the durability aspects within the limits provided by the timing of the evaluations and the types of the interventions analysed.

Sixth bullet: The Commission accepts this recommendation.

Seventh bullet: The Commission notes that this recommendation is addressed to the Member States.

The Commission will not monitor the implementation of targets which go beyond the legal requirements.

INTRODUCTION

9. The result indicators foreseen in the operational programmes for ERDF and Cohesion Fund are meant to reflect the intended change in economic, social and environmental domains, most often at the regional level. Given the shared management with the Member States, the Commission does not monitor results at the project level.

11. The interest of the Commission focused on ensuring that the legal requirements as regards durability are met.

The selection of productive investment projects assesses the “durability” of projects, by requiring a business plan. This latter shall demonstrate the need for public grant (in the context of applicable State aid scheme) and the ability of the project to trigger additional resources, covering operational and maintenance (O&M) costs and generating reasonable profit.

The Commission has shown consistent interest in the issue of durability. Establishing a common approach of strategic planning and a well-defined intervention logic of intervention at EU level also implicitly addressing the issue of durability has been a long-term objective for the Commission. To this end, significant progress has been made in the programming period 2014-2020, with the introduction of the result orientation in all ESI Funds programmes, the emphasis on intervention logic and the reinforced focus on the evaluation of impacts ex-post for all EU interventions. Impact evaluations are in fact better suited to capture the aspects of durability.

OBSERVATIONS

40. For the current period 2014-2020, the Monitoring Committees will follow and assess output and result indicators in the framework of the operational programme's specific objectives.

The data reported by Managing Authorities to the Commission is at the level of priority axes within operational programmes, and not at the project level. Nevertheless, in the context of the ex-post evaluation of ERDF and CF interventions 2007-2013, the Commission has commissioned studies of counterfactual analyses in order to estimate the impacts of cohesion policy on regional economic growth for the period 2007-2013. In the specific ex-post evaluation of SME support for 2007-2013, additional evidence collected through case studies reflects also the effects of ERDF support for the performance of SMEs, their propensity to invest and capacity to withstand the crisis, as well as behavioural changes in business methods.

For the current period, the Article 54 CPR requires Member States to carry out impact evaluations for the EU interventions based on ESI Funds.

50. Starting from the 2014-2020 programming period the Commission provided to Managing Authorities guidance on selection criteria for project linked to the Smart Specialisation Strategies. In the shared management funds specific selection criteria and other support for promoting durability of results are set up at national level by managing authorities determined on the basis of national eligibility rules.

In the programming period 2014-2020 the Commission promotes a longer term perspective with the introduction of the result orientation in all ESI Funds programmes and with the reinforced emphasis on the evaluation of impacts ex-post for all EU interventions. Impact evaluations are better suited to capture the aspects of durability.

54. In order to improve the quality of the design of each programme, and verify whether its objectives and targets can be reached, the programme is supported by an ex-ante evaluation carried out at priority Axis level and not typology of company. According to ex-ante evaluations, the OPs had not quantified the companies' actual need for public funding but had identified the market failures.

56. Under State aid conditions, recipient of the aid should demonstrate the need for it (based on a business plan).

58. Expanding durability requirements beyond the minimum period would trigger important difficulties at closure and impose further, burdensome, monitoring obligations. With time, such a requirement is also becoming less relevant, given the natural activities of economic operators, which may have to transfer / sell activities for economic reasons.

63. Innovation became a clear objective for 2014-2020 programmes, projects being assessed accordingly through the selection process, echoing the OP’s goals and conditions.

The economic context was dramatically different in 2007-2013, due to the crisis. The efforts rather aimed at ensuring the survival of enterprises and securing existing jobs.

65. The fact that a project has already commenced in advance of the grant award is in line with State aid schemes. The Commission would like to stress that there also are situations where the early start of projects does not necessarily imply deadweight loss.

66. Managing authorities have monitored the amounts of aid received, in case they were granted under *de minimis* scheme.

69. The Commission wishes to underline that the definition of a common approach for the use of indicators for ESI Funds has been evolving and strengthening over time. In this respect, significant progress has been made during the 2014-2020 period building on the steps already taken in 2007-2013. In the current period, all ESI Funds operational programmes need to include output and result indicators defined for all specific investment objectives, and the managing authorities of these programmes have developed evaluation plans for the evaluation of impacts of the EU investments.

70. In the view of the Commission, based on lessons learnt during the previous programming periods, progress has been made in the current period 2014-2020. In addition to the systematic use and reporting of indicators in operational programmes, the current requirement for the evaluation of impacts of all ERDF interventions also incentivises Member States to adopt a medium to long-term perspective when planning and programming the implementation of the interventions, therefore catering implicitly also to the durability of the investment results. The direct monitoring of the durability of project results, however, remains the responsibility of Member States.

77. For 2007-2013, according to the Enquiry Planning Memorandum (EPM) bridging the gap, the Commission carried out audits where they checked among other issues whether legal durability requirements were met. Some findings of non-compliance were reported and followed up by the Commission.

For 2014-2020, Early Preventive System audits and compliance audits cover also the risk of non-compliance with legal durability requirements by using the same checklists.

With respect to evaluation, the ex-post evaluations of ERDF and Cohesion Fund programmes in 2007-2013 include 13 work packages, of which 8 thematic (such as SME support, environment, energy efficiency, tourism and culture etc). While no single evaluation was specifically focusing on the issue of "durability" of results per se (as opposed to legal durability which should be assessed within the context of audits), some of these studies referred explicitly to the durability of results/ impacts in a dedicated evaluation question. This is the case, for instance, in the ex-post evaluation of support to large enterprises and for tourism and culture. Moreover, ex-post evaluations cover the long-term results i.e. durability of the EU interventions within the limits provided by the timing of the evaluations, the types of the interventions analysed, and the evidence available.

80. Use of corrective measures (or repayable assistance schemes) needs to be considered carefully. For instance, if the beneficiary failed to achieve the targets due to a tougher economic context, weakening its financial viability, applying further corrective measures would have severe and counterproductive consequences for projects which have achieved partially their objective.

<u>Common Commission reply to paragraphs 81 to 84</u>

See Commission reply to recommendation 5 b).

86. In addition, the higher reliance on financial instruments for non-risky investments is likely to reduce the risk of deadweight and provide further guarantees on durability, as business plans are carefully evaluated by commercial banks verifying the creditworthiness of the projects.

92. The performance orientation is at the core of the Commission's current approach to EU investments and depends on several interacting elements including a good analysis of needs, reliable intervention logic with clear specific objectives, well-chosen result indicators reflected in

the selection criteria and also a performance framework with milestones and targets. Moreover, the requirement for impact evaluations in the period 2014-2020 invites to an ex-ante reflection on what is to be achieved through these investments.

93. Due to the link with the financial framework, the regulatory framework is designed and negotiated at least 3 or 4 years before ex-post evaluations related to the ongoing programming period can be carried out (after the end of the eligibility period, in order to get sufficient and reliable data).

CONCLUSIONS AND RECOMMENDATIONS

Recommendation 1 - Promoting durability of the results

a) The Commission notes that this recommendation is addressed to the Member States.

b) The Commission accepts this recommendation.

Recommendation 2 - Taking durability into account in selection procedures

The Commission notes that this recommendation is addressed to the Member States.

Recommendation 3 - Emphasising durability in monitoring and reporting

The Commission notes that this recommendation is addressed to the Member States.

Recommendation 4 - Taking durability into account in evaluations

The Commission accepts this recommendation.

Accordingly, in its future ex-post evaluations, the Commission will reinforce the durability aspects within the limits provided by the timing of the evaluations and the types of the interventions analysed.

Recommendation 5 - Consistently applying clear corrective measures

a) The Commission accepts this recommendation.

b) The Commission notes that this recommendation is addressed to the Member States.

The Commission will not monitor the implementation of targets which go beyond the legal requirements.

Event	Date
Adoption of Audit Planning Memorandum (APM) / Start of audit	8.6.2016
Official sending of draft report to Commission (or other auditee)	11.12.2017
Adoption of the final report after the adversarial procedure	7.2.2018
Commission's (or other auditee's) official replies received in all languages	6.3.2018

Generating durable results through EU funds beyond the end of the projects is important to enable positive impacts for the beneficiaries and the regions concerned. Between 2000 and 2013, the ERDF earmarked over 75 billion euro for productive investments in enterprises. We found that for a significant share of the audited projects, the results were not or only partially durable. We concluded that this was mainly due to a lack of emphasis by the Commission and national / regional authorities on the durability of results in the management at both the programme and the project level: whether at the design phase of the operational programmes or at selection, monitoring and evaluation phases. The regulatory framework for the 2014 to 2020 period has introduced improvements regarding durability. We make recommendations addressing the gaps persisting in view of enhancing the durability of results in future EU productive investments.

EUROPEAN COURT OF AUDITORS

Publications Office

EUROPEAN COURT OF AUDITORS
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG

Tel. +352 4398-1

Enquiries: eca.europa.eu/en/Pages/ContactForm.aspx
Website: eca.europa.eu
Twitter: @EUAuditors