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The Lisbon Strategy – seen through the Court's performance audits

**Hearing on the Lisbon Strategy: Budget implementation and
results European Parliament Committee on Budgetary Control
(CONT)**

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Chairman, honourable members of the Committee,

Ladies and gentlemen,

I would like to thank you, Mr Theurer, the rapporteur, Ms Grässle, and the Committee for inviting the Court of Auditors to participate in this hearing on the Lisbon Strategy: Budget implementation and results.

I have the pleasure of representing the European Court of Auditors here today and to provide you with an independent perspective, based on the Court's audit work over the years, on the results achieved under the Lisbon Strategy. While looking backwards over the years of the Lisbon Strategy, I believe that the best way to add value here today is to focus, not only on the non-achievement of the Lisbon strategy goals, but on the lessons to be drawn from this. What are the issues to be addressed to ensure better performance in the future?

I will start by providing a little context on the Lisbon Strategy, and a few examples on how it was adapted; I shall then look at the evaluations carried out by the Commission; the main weaknesses in how the Strategy was implemented - as reflected in the Court's audit results; and the need to develop a stronger focus on the results to be achieved in future programmes. My written speech, printed in the booklet provided for this meeting, includes a number of additional examples of performance audits by the Court in this area, enclosed in a short annex at the end, which I will not go through during my oral presentation here today but will be happy to comment upon should there be any questions.

It is important to bear in mind that the Lisbon Strategy applied to the Union as a whole, with the main burden of implementation and funding falling on the Member States. The **EU** budget, which is what the Court audits, can at best have a more modest impact on achieving the objectives of the Strategy.

The Lisbon strategy aimed "to make the European Union the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment by 2010". The main economic and employment objectives defined in 2000 were:

- 3% economic growth per year,
- 3% GDP spent on research and development
- average employment rate of 70%,
- women employment rate of 60%,

These EU-level targets represented a "one-size-fits-all" approach. There were no individual national targets; nor did they take account of the starting positions of the individual Member States and their relative strengths and weaknesses. In hindsight, this approach to setting targets at the EU level may have contributed to a general lack of ownership of the Lisbon Strategy in the Member States.

The first phase of the Lisbon Strategy focused on translating the Lisbon European Council conclusions into specific policy instruments. This was done by establishing strategic policy orientations, such as the information society, research and development, and enterprise.

Based on a mid-term review completed in November 2004, the Commission concluded that the results so far had been disappointing, and that the European economy had failed to deliver the expected performance in terms of growth, productivity and employment. Some of the problems identified were:

- blurred strategic objectives
- numerous and at times irreconcilable priorities - resulting in a lack of focus
- uneven implementation in Member States resulting in missed synergies
- unclear roles and responsibilities at EU and Member States level resulting in a lack of political ownership
- and an excessive amount of “red tape”.

Following the mid-term review the Commission decided to focus attention on the actions taken to increase **growth and jobs**. The Lisbon Strategy was re-launched with four defined priority areas:

- research and innovation,
- investing in people/modernising labour markets,
- unlocking business potential, particularly for Small and medium-sized enterprises, and
- energy and climate change

While 2007 saw positive trends in terms of growth and net employment, the worldwide financial crisis, beginning in the autumn of 2008, presented further challenges and created new priorities in the years following. The top priority was thus to protect Europe’s citizens from the worst effect of the financial crisis. For private business, access to finance, a reduced administrative burden and the promotion of entrepreneurship were all given priority. These factors were seen as pre-conditions for investment, growth and job creation in the private sector. In Research and innovation, as well as Infrastructure and energy, investments were increased.

Allow me to provide a couple of examples of performance audit the Court has carried out in relation to these priorities:

- In 2012 the Court published a performance audit report on Financial instruments for Small and medium-sized enterprises (SMEs) co-financed by the European Regional Development

Fund (Special report No 2/2012). SMEs are the backbone of the EU's economy, generating employment, innovation and wealth. However, SMEs can suffer from difficulties in accessing finance, limiting their potential to delivering growth. The Court's audit therefore focused on the financial engineering measures co-financed by the European Regional Development Fund during the 2000-2006 and the 2007-2013 programming periods designed to help SMEs. The Court found that the effectiveness and efficiency of the measures were hampered by important shortcomings, mainly due to the inappropriateness of the regulatory framework, insufficient analysis of needs (financing gaps), design flaws and an insufficiently robust monitoring and evaluation system.

- In its audit of the cost-effectiveness of cohesion policy investments in energy efficiency (Special report No 21/2012) the Court concluded, amongst other things, that the conditions enabling cost-effective energy efficiency investments had not been ensured. Reasons were the lack of proper needs assessments identifying potential energy savings, and insufficient integration with national energy efficiency plans. Due to insufficient performance indicators, the results achieved by the measure could not be aggregated in a meaningful way. Although all the audited projects had led to energy savings, the cost of these savings was often high and the average payback period for the investments was around 50 years.

Chairman, honourable members,

I believe that I may safely conclude, as the Commission did in its 2010 evaluation, that the Lisbon Strategy fell short of delivering the intended growth and employment targets. Collectively the Member States failed to close the productivity growth gap with leading industrialised countries; total Research and Development expenditure in the Member States improved only marginally and, although employment figures showed improvement before the economic crisis in 2008, the 2000 targets were not met.

While no single audit could have assessed the overall impact of the Lisbon Strategy, the Court has issued several performance audit reports focussing on different measures in support of growth and employment partly funded by the EU budget. While the Court's audits have noted benefits to the EU citizens, in some areas, several of the Court's audits have shown that those benefits could have been greater, or could have been achieved more efficiently and at a lower cost, if the EU intervention had been better targeted, planned and designed. The Court's audits have also shown that in several areas the actual results achieved cannot be measured and documented, due to the lack of reliable and comparable performance data. This is a problem for several reasons: it prevents the timely identification of poor performance and the need for corrective actions; it limits the possibility to consider lessons learned when designing future programmes; and it weakens the accountability of the Commission to the EU taxpayer.

Allow me to provide you with a further example reflecting these issues:

- In its audit of the use of Structural and Cohesion funds to co-finance transport infrastructure in seaports (Special report No 4/2012), the Court concluded that only 11 of the 27 projects audited were effective in supporting transport policy objectives. None of the audited regions had a long-term port development plan and no needs assessment had been carried out. There was a lack of suitable projects for funding and retrospective financing was used to absorb the available funds. The main focus of the implementing bodies was the rate of spending, with little consideration given to project results. The impact of the new infrastructure was thus not monitored and empty ports and unused seaport infrastructures were noted during the audit.

Since 2010 the Court has included a chapter, in its Annual Report on the implementation of the EU budget, dedicated to performance and getting results from the EU budget. Based on its special reports and an examination of the Commission's reporting on its performance, in the Annual Activity Reports, the Court, each year, highlights significant issues related to sound financial management principles, i.e. economy, efficiency and effectiveness.

One of the issues highlighted is the concept of EU added value, which at times has proven to be an elusive element when the Court has audited programmes partly funded by the EU budget relating to the Lisbon Strategy themes of growth and employment:

- In its audit on whether EU support to the food-processing industry improves the competitiveness of agriculture and forestry (Special report No 1/2013) the Court found that the likelihood of deadweight was high. Member States had failed to direct support to projects that effectively and efficiently added value to agricultural products; as a result the potential for growth was limited.

A recurrent issue emerging in many of the performance audits carried out by the Court, also recognised in the midterm review of the Lisbon Strategy and the Commission's evaluation from 2010, is the challenge of achieving results in areas where there is an absence of, or insufficiently suitable, objectives, indicators and milestones for the operational programmes. These are essential requirements for tracking performance throughout the lifetime of programmes.

The legislator has an important role in ensuring that clear policy objectives are in place. Without clear policy objectives, the risk of unfocussed spending programmes, conflicting initiatives resulting in limited results or impact is greatly increased. However, clearly defined policy objectives in the EU regulations are not enough. During the more detailed planning of expenditure programmes, the Commission and the Member States need to pay greater attention to defining focussed objectives, as well as identifying and mitigating the risks of not achieving these.

When implementing spending programmes, some Directorate Generals of the Commission transfer the objectives mentioned in the legal texts or high level policy documents directly into their management plans. The Court has noted, in chapter 10 of its Annual report on the implementation of the budget concerning 2012, that, while objectives in high level documents should provide a basis,

these are construed in a political context and are often not sufficiently focused to be useful at implementing level.

Several of the Court's audits have shown that focussed objectives with suitable performance indicators have not been consistently applied in recent years' spending programmes. In some spending areas targets have not been sufficiently quantified and multiannual targets have not been translated into targets which can be measured on an annual basis. As an example:

- For some multiannual programmes, the standard pace of progress might be relatively slow. An achievement of less than 10% of the target after a number of years might thus be normal, while in other areas this might signal delays and/or the need for corrective actions. In the area of European Regional Development Fund, the target for additional population covered by broadband access in six Member States, an initiative related to the Lisbon Strategy, was set at 10 million over 2007-2013. From 2007-2009, 5,5% of the overall target had been achieved. However, no annual targets had been set allowing the Commission to assess whether this implied that the programme was on track or not.

Measuring and assessing the achievement of objectives is only possible if an adequate system is put in place at the start of a programme, capable of providing relevant, reliable and timely performance data. An example of the challenges involved in ensuring such data, relevant to the implementation of the Lisbon Strategy, is the fact that there was no legal requirement to implement a common set of performance indicators in the European Regional Development Fund regulation. Consequently, there was a high risk that data collected from implementing authorities was neither exhaustive nor comparable

As a new programming period is starting, the Court has emphasised the urgency of building a robust performance management and reporting system. In this context the Commission needs to ensure that legal limitations and practical constraints do not impair the reliability of the information collected by the Commission from Member States regarding programmes under shared management, just as the Commission must consider how to ensure that relevant information can be provided at the appropriate time.

I will now turn my attention to the Commission's report on the evaluation of the Union's finances based on the results achieved. This potentially valuable report, to be issued annually, is currently falling short of its purpose. The Court has therefore been cooperating with the Commission as to how the report might provide more meaningful information on the progress made and the results achieved across all policy areas.

In this context, the Court has emphasised the importance of ensuring better and timely performance data from all Directorate Generals throughout the lifetime of programmes and the need to consider the purpose, addressees and links between the existing reporting tools. The Court has recognised that it will take time for the Commission to develop a suitably robust performance management and reporting system.

I therefore consider it a positive step that the Commission, in 2013, committed itself to present, in 2014, a new framework for performance management and reporting supporting future evaluation

reports. The Court will continue to follow-up and report on the extent to which the Commission succeeds in its endeavours.

Coming to the end of my presentation, I would like to re-emphasize my key points:

As the Commission recognised in its evaluation of the Lisbon Strategy in 2010 the defined targets for growth and employment were not met by Member States or EU as a whole. There are many reasons for this.

As reflected by the Court's performance audits, spending programmes were often hampered by unsuitable objectives and indicators, more focus on input and output than the intended results and impact, inadequate design and planning and the absence of a reliable system for measuring the actual performance. These weaknesses have significantly reduced the results and impact achieved.

It is fair to say, based on recent years' developments, that performance management and reporting is evolving. However, the Commission cannot succeed on its own; it will need the support of the legislator and the commitment of the Member States when implementing expenditure in shared management. In this context, the Commission should continue to remind the Member States of their obligation to use EU funding in accordance with sound financial management. Spending money is never enough - there have to be results at the end of this and expenditure should be targeted to those projects which deliver the best possible results.

The real test will be whether the Commission manages, for the new programming period, to ensure focussed objectives with relevant indicators, across all spending programmes, allowing them to track and measure their performance and thus to what extent they are capable of contributing towards fulfilling the EU 2020 targets. These targets, much like the ones defined in 2000 for the Lisbon Strategy, will need to be translated into specific targets and actions in the Member States, ensuring ownership and a focussed implementation aimed at achieving maximum impact. The biggest burden of implementing and funding the initiatives required to reach the EU 2020 targets rests with the Member States. An important part of the Commission's role is therefore to coordinate implementation and drive sound financial management, when spending the EU budget, by building a stronger performance culture throughout the Union as a whole.

For its part, the Court's strategic objectives for 2013 to 2017 include maximising its contribution towards improved EU accountability in relation to the EU budget. This is a key driver in the selection of audit tasks. The Court will continue to strive towards providing its stakeholders with relevant and timely reports on the results achieved by the Commission and the Member States. The Court will also continue to integrate performance issues in the annual report, thus providing a more holistic view of both compliance and performance issues across all policy areas. The Court is further pursuing increased cooperation with the Commission on following up recommendations from special reports in order to increase their impact and thus support better results in the future.

Thank you for your kind attention.

Additional examples of relevant performance audit reports by the European Court of Auditors

- In its report on whether the European Globalisation Adjustment Fund delivered EU added value in re-integrating redundant workers (Special report No 7/2013), the Court concluded that nearly all eligible workers had been offered personalised and well-coordinated measures. However, no quantitative reintegration objectives were set and existing data were not adequate to assess the effectiveness of the measures. The Fund delivered EU added value when used to co-finance services for redundant workers or allowances not ordinarily existing under Member States' unemployment benefit systems. However, in all the audited cases, the Court identified income support measures which would have been paid by the Member States anyway.
- In its report on European Social Fund spending related to older workers (Special report No 25/2012) the Court noted differences in the Managing Authorities' interpretation of the content of this Lisbon Strategy priority, as well as shortcomings in the design of the audited Programmes for the 2007-2013 period. Quantified output and outcome targets were rarely set, and the ones that were set were seldom incorporated in the project conditions just as the regulation did not foresee the use of common core indicators. As a result, despite the fact that an increased employment rate for older workers was a Lisbon Strategic priority, neither the Managing Authorities nor the Commission were in a position to establish how many older workers had gained new qualifications or had found or kept a job due to action funded by the Fund. Furthermore, the actual amount spent on this kind of actions was unknown.
- In its audit of the e-Government projects supported by European Regional Development Fund (Special report No 9/2011) the Court assessed the effectiveness of the measure intended to lessen the administrative burden of citizens, businesses and other administrations, in support of the Lisbon goals, by reducing barriers to the internal market and increasing mobility and regional development. The Court's audit focused on European Regional Development Fund expenditure in the 2000-06 period and concluded that the supported e-Government projects had contributed to the development of electronic public services. However, despite the fact that the majority of the projects were technically operational, the benefits obtained were much lower than could have been expected. This was due to insufficient focus on project results and the absence of measurement of realised

project benefits. It was therefore not possible to evaluate projects or, just as significantly, to accumulate knowledge for the benefit of future programmes.

- In its special report concerning the effectiveness of the European Regional Development Fund co-financed tourism projects (Special report no 6/2011), aimed at increasing growth and employment, the Court concluded that it was difficult to assess the extent of the EU added value achieved by the supported tourism projects due to the absence of a suitable system for setting objectives and monitoring performance against them.
- In its special report concerning the SME Guarantee facility (Special report No 4/2011), the Court concluded that the EU added value of this guarantee facility had not been demonstrated. The audit results indicated a fairly high level (38 pct.) of deadweight amongst the loans examined, and an insufficient targeting of the loans allocated. The results achieved might just as well have been achieved by national schemes alone.
- The Court's special report on the Leonardo da Vinci mobility scheme (Special report No 4/2010) - also relevant for other Lifelong Learning Programme schemes - found that whilst the operational elements of the programme were generally well managed, the Commission had not finalised the setting up of suitable objectives and impact indicators. As a result, three years into the programme, the Commission was not in a position to measure whether the objectives were being met or not.
- In its report concerning vocational training actions for women co-financed by the ESF (Special report No 17/2009), the Court found that the identification and selection of vocational training actions for women, within the programmes audited, were not set up as a direct response to an analyses of labour market needs. The measures failed to focus sufficiently on specific target groups. Furthermore, project selection criteria in the Member States audited did not take sufficient account of the labour market needs nor ensured that projects selected had objectives which were in line with overall programme objectives. The Court found that monitoring information did not allow reliable information as to the results achieved.