EUROPEAN
COMMISSION

Brussels, 28.2.2013
COM(2013) 104 final

COMMUNICATION FROM THE COMMISSION

Results of the mid-term verification of additionality 2007-2013

COMMUNICATION FROM THE COMMISSION

Results of the mid-term verification of additionality 2007-2013

1. INTRODUCTION

Additionality is a core principle of Cohesion Policy aiming to ensure its added value. It means that the EU Structural Funds complement but do not replace equivalent public expenditure of a Member State[1]. Additionality is respected if the average annual level of national expenditure in real terms in 2007-2013 is at least equal to the level determined at the beginning of the period. This ensures that Cohesion Policy has a genuine impact by complementing national with European investments. It remains a key element of the Commission's proposal for Cohesion Policy for 2014-20 as it supports the preservation of growth-enhancing investments.

In the programming period 2007-2013, the Commission verifies the respect of additionality in the convergence regions (including phasing-out regions) of 20 Member States[2]. The verification takes place in three stages:

- ex-ante when the level of public expenditure to be maintained in the convergence regions in 2007-13 ('baseline') is set[3];
- mid-term when the level of actual public expenditure in 2007-10 is determined and the baseline is reviewed;
- ex-post when the level of actual expenditure in 2011-2013 is determined and the respect of the baseline is verified.

This Communication summarises the results of the mid-term verification carried out for the period 2007-10. It mainly covers the pre- and early years of the economic and financial crisis, when many Member States embarked on fiscal stimulus. Most Member States have moved to fiscal consolidation since then, which will likely have a significant impact on public investment and on additionality in the period 2011-13. It is therefore likely that the ex post verification of actual expenditure will lead to further adjustments.

The mid-term verification has led to three main findings:

First, the aggregate level of national structural spending in the convergence regions in 2007-10 was 7% higher than the level set ex-ante. This is related to the increase of public expenditure in certain Member States. Higher-than-expected public spending is mainly due to the counter-cyclical effort of some governments to mitigate the impact of the crisis or to strong economic expansion in some countries before the crisis.

Second, ten Member States asked the Commission to reduce their additionality baselines for 2007-13. For most this was a consequence of on-going or planned fiscal

---

1. For the definition of equivalent public expenditure, see: Commission Methodological Paper giving Guidelines on the calculation of public or equivalent structural expenditure for the purpose of additionality, Working Document No. 3, December 2006.
2. See Article 15 of Regulation (EC) 1083/2006. The 20 Member States concerned are Belgium, Bulgaria, Czech Republic, Germany, Estonia Greece, Spain, France, Italy, Latvia, Lithuania, Hungary, Malta, Austria, Poland, Portugal, Romania, Slovenia, Slovak Republic, and the United Kingdom.
3. See Communication from the Commission: Report on ex ante verification of additionality in the regions eligible under the Convergence objective for the period 2007–2013, COM(2009)112 final.

consolidation, while for two it was a correction of the ex ante analysis (see sections 2 and 3). The Commission considered all of these requests to be justified.

Third, the mid-term verification has highlighted shortcomings in the current method for verifying additionality. This is why the Commission has proposed to reform the verification process in 2014-2020, aligning it with the new economic governance of the Union[4].

2. STRUCTURAL SPENDING IN CONVERGENCE REGIONS IN 2007-2010

From a methodological point of view, determining the level of public spending for the verification of additionality in 2007-2010 was a challenging exercise. It meant collecting and aggregating *ad hoc* data on public investment, sector by sector, at local, regional and national level. The Commission checked its consistency with public investment trends observed in Eurostat statistics, in particular the ESA-95 system of accounts and the Classification of the Functions of Governments (COFOG), and organised a series of bilateral meetings with Member States to verify the reported expenditure level. To address these problems, the Commission has proposed to reform the verification system for 2014-2020, as outlined in the conclusion.

The results of the mid-term verification are summarised in Table 1 which compares the certified level of average annual structural expenditure in 2007-2010 with the level agreed *ex-ante*. Despite the crisis, annual structural spending was on average 7.3% higher than initially estimated (EUR 102 billion instead of EUR 95 billion[5]). This is explained by the fact that in the convergence regions of ten Member States the level of structural expenditure was equal to or higher than the level agreed at the *ex-ante* verification (Belgium, Bulgaria, the Czech Republic, Spain, France, Malta, Poland, Romania, Slovenia and the Slovak Republic).

In six Member States (Germany, Estonia, Latvia, Portugal, Austria, the United Kingdom) the shortfall was modest compared to their initial commitments. Two Member States missed their ex-ante commitment by more than 10% (Lithuania, Hungary), whereas two other Member States missed it by more than 20% (Greece, Italy). With the exception of Germany, the rapid deterioration of the macroeconomic environment was the main reason for the lower than expected level of expenditure in the other Member States.

[4] See: http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm

[5] Figures on structural spending are expressed in 2006 prices in line with the guidelines of the Working Document No. 3 of December 2006.

TABLE 1- Ex-ante reference level 2007-2013 and actual expenditure 2007-2010			
	Reference level av. 2007-2013	Expenditure av. 2007-2010	Difference
BE	1,128	1,246	10.5%
BG	919	1,444	57.2%
CZ	2,549	2,649	3.9%
DE	16,504	16,452	-0.3%
EE	1,316	1,275	-3.1%
GR	8,661	6,719	-22.4%
ES	13,973	21,367	52.9%
FR	1,815	2,271	25.1%
IT	20,613	16,194	-21.4%
LV	971	902	-7.1%
LT	755	672	-11.1%
HU	3,330	2,867	-13.9%
MT	107	170	59.3%
AT	139	138	-0.9%
PL	7,940	12,531	57.8%
PT	3,946	3,624	-8.2%
RO	4,773	5,196	8.9%
SI	957	1,121	17.1%
SK	876	1,396	59.4%
UK	3,495	3,465	-0.9%
Total	94,765	101,698	7.3%

Note: annual average in Million EUR (2006 prices)

Greece has been hit hard by the crisis and has been stuck in a severe recession since the end of 2008. This has led to two adjustment programmes and financial assistance from euro area Member States and the International Monetary Fund.

The reason for the lower public expenditure in Italy was that the *ex ante* level was too ambitious. It was based on the 'Fondo per le Aree Sottoutilizzate' investment programme which complements EU Structural Funds with a national pillar for regional development targeting mainly the Mezzogiorno. In 2008-2009 the investment programme had to be significantly downsized when the country faced the need for urgent fiscal consolidation in response to the crisis.

The main underlying reason for the higher-than-expected expenditure in Spain was the economic recovery packages adopted in 2009 for local basic infrastructure (about EUR 7-8 billion) and sustainable economy (about EUR 4-5 billion) to counter the first effects of the crisis. Similarly, in Slovakia in 2009-2010, the government adopted three stimulus packages amounting to around 1% of GDP to encourage employment, to stimulate R&D and to support investment in energy efficiency.

In the case of Poland, a combination of stimulus measures to develop human resources and basic infrastructure led to the higher-than-expected level of structural spending. Finally, the higher-than-expected expenditure level in Bulgaria was due to strong economic expansion before the crisis, with a significant increase in gross fixed capital formation.

3. REVISION OF THE TARGET LEVEL OF STRUCTURAL SPENDING IN 2007-2013

During the mid-term verification, in line with the provisions of the Structural Funds' regulation[6], ten Member States (Czech Republic, Germany, Estonia, Greece, Italy, Latvia, Lithuania, Hungary, Portugal and the United Kingdom) asked the Commission for a lower level of public expenditure in 2007-2013 than the one agreed *ex-ante*.

The Commission assessed these requests and in consultation with the Member States, decided to modify the level of structural expenditure taking into account the change in the economic situation since the start of the programming period. The Commission elaborated the following three options for a new reference level of public spending:

(1) Maintain the share of GDP allocated to public investment: Under this option the new 'reference level' is equivalent, in terms of GDP share, to the one set at the *ex-ante* verification. The aim is to keep the level of public investment consistent with the size of the national economy (i.e. GDP). This means that the reduction in the 'reference level' is acceptable if it is proportional to the decline in economic activity.

(2) Keep the share of primary public revenue constant. A second option is to set the new reference level in proportion to total primary revenue. The new 'reference level' is equivalent to the one set at the *ex-ante* verification in terms of the total primary revenue of the General Government. The aim is to keep the level of public investment consistent with the financial resources of the public sector.

(3) Take the level of public expenditure of the period 2000-2006 (2004-2006 for the 12 new Member States) as the new reference figure. This option allows Member States to set the new reference level in line with the public expenditure over the previous programming period. It addresses the concerns of those Member States that were too ambitious when setting their level of public expenditure for 2007-2013 based on overly-optimistic economic forecasts.

The new reference levels for the Czech Republic, Estonia, Lithuania and Hungary are consistent with option (1). The new reference levels of the UK and of Latvia are coherent with option (2) and (3), respectively.

In the remaining four Member States, the revision of the reference level took into account a number of additional elements. In Germany, public expenditure on active labour market policy in the Eastern German convergence regions is decreasing faster than initally planned in line with a strong and unexpected decline in unemployment. The Commission accepted this reduction since labour market expenditure remains constant on a per-capita basis.

In the case of Greece and Portugal, the Commission ensured that the new levels of public spending to be maintained in 2007-13 are coherent with the policy conditionality of the Economic Adjustment Programmes agreed with the European Commission, the European Central Bank and the International Monetary Fund. In both countries these Programmes envisage a substantial reduction of public expenditure in areas eligble for Structural Funds support, including education, training, capital expenditure and spending by public firms.

In Greece, public investment is expected to contract from 3.1% of GDP in 2007-2010 to 2.2% per year over the period 2011-2013. In absolute terms this means an annual reduction of EUR 2.5 billion.

[6] Article 15(4) of Council Regulation 1083/2006

In Portugal, public investment (gross fixed capital formation of the General Government) is expected to shrink from 3% of GDP in 2007-2010 to 2.1% per year in 2011-2013 in order to comply with the requirements of the Economic Adjustment Programme. This means an annual reduction of about EUR 1.8 billion.

Italy's economy has been hit hard by the euro-area sovereign-debt crisis. In the last few years, to counter the deterioration of the general government debt, the Italian Government has adopted sizable budgetary consolidation measures. They consisted of planned savings in departmental expenditure and cuts to transfers to subnational governments. The latter also affected fixed capital spending which is expected to decline from 2.3% to 1.5% of GDP in 2007-2013. As a result, the fiscal consolidation efforts seriously affected Italy’s capacity to maintain the level of public spending agreed for 2007-13.

The *ex-ante* reference level and the new one are presented in Table 2. The revised amount will constitute the new target level for verifying the respect of additionality. This will be checked *ex post* on 31 December 2016.

TABLE 2: The new reference levels decided on the basis of Article 15 (4)

	Reference level average 2007-13	New reference level av. 2007-2013	Difference
BE	1,128	1,128	0.0%
BG	919	919	0.0%
CZ	2,549	2,271	-10.9%
DE	16,504	14,562	-11.8%
EE	1,316	1,276	-3.0%
GR	8,661	6,125	-29.3%
ES	13,973	13,973	0.0%
FR	1,815	1,815	0.0%
IT	20,613	13,860	-32.8%
LV	971	770	-20.7%
LT	755	598	-20.8%
HU	3,330	2,828	-15.1%
MT	107	107	0.0%
AT	139	139	0.0%
PL	7,940	7,940	0.0%
PT	3,946	2,637	-33.2%
RO	4,773	4,773	0.0%
SI	957	957	0.0%
SK	876	876	0.0%
UK	3,465	3,072	-11.3%
Total	94,765	80,624	-14.9%

Note: annual average in Million EUR (2006 prices)

The new aggregate reference level for 2007-2013 (EUR 80.6 billion) is 15% lower than the one set at the *ex-ante* verification stage (EUR 94.8 billion). The greatest reductions took place in Portugal (-33.2%), Italy (-32.8%) and Greece (-29.3%), followed by Lithuania (-20.8%) and Latvia (-20.7%). Accordingly, gross fixed capital expenditure in EU27 which equaled 2.7% of GDP in 2007-2010 is expected to decline to 2.3% of GDP in 2011-14, i.e. below the pre-crisis level.

It is important, to note, however, that the level of national public investment in most convergence regions remains substantial. On average, Member States invest nearly

EUR 500 per head and per year in their convergence regions in 2007-2013. Public investment per capita per year also remain significant in those countries where the reference level has been reduced, for instance EUR 959 in Eastern Germany, EUR 795 in the Mezzogiorno, EUR 600 in Greece, EUR 351 in Portugal and EUR 333 in Latvia.

Re-establishing sound public finances through fiscal consolidation is an important condition for sustaining long-term growth. But it will continue to affect the capacity of Member States to support growth in the medium term and to meet their additionality commitments. Consequently, it is likely that the ex post verification for the 2011-13 period will result in further adjustments.

4. CONCLUSION

Additionality is a corner stone of Cohesion Policy ensuring its nature as an investment policy.

For the first time since additionality verification began, the EU has been facing a severe economic crisis. The budgetary and fiscal consequences of the crisis have led to a downward revision of the level of public spending in the convergence regions of a number of Member States. However, despite the necessary fiscal consolidation, many countries between 2007 and 2010 undertook significant per capita structural expenditure. Cohesion Policy accounts for a significant share of public investment in many Member States and remains essential for preserving sustained levels of investment to finance growth-oriented policies throughout Europe.

On the basis of this report, the Commission will, in 2016, check *ex post* whether the Member States have respected the principle of additionality in 2007-2013. At this stage, the levels of structural expenditure will be analysed including the years 2011-2013, a period of fiscal consolidation and readjustment of expenditure for most Member States. This may require a further revision of the additionality targets.

The mid-term verification of additionality has also revealed a number of weaknesses in the current system. Results are not fully comparable across Member States. The *ad-hoc* verification process requires considerable resources both in the Member States and the Commission, and the verification system is not aligned with the EU's new economic governance.

To address this problem, the Commission has proposed to reform the verification of the additionality principle in 2014-2020. The aim is to establish a direct link between additionality and the Stability and Growth Pact in order to tackle the 'trade-off' between additionality and public deficit in a transparent and public framework and to render the verification system simpler, more comparable and less burdensome. Even though the range of investments under Cohesion Policy is not fully covered (notably regarding employment, education, training and social inclusion) the best solution is to use the information on public investment (Gross Fixed Capital Formation) of the Stability and Convergence Programmes (SCPs) for its verification. It is important that the proposed system is put in place to ensure the effectiveness and value added of Cohesion Policy in the next programming period.