STRATEGIC PROGRESS REPORT 2019

to the Partnership Agreement between Germany and the European Commission for the implementation of the ESI Funds under the Common Strategic Framework in the 2014-2020 funding period

Conclusions from the progress report 2019 for the design and implementation of the ERDF and the ESF+ in the period from 2021 to 2027

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In the funding period 2014-2020, Germany will be supported by the European Structural and Investment Funds (ESI Funds) with a total of € 27.93 billion. The ERDF (€ 10.77 billion) and the ESF (€ 7.50 billion) together provide € 18.27 billion for achieving the desired economic, social and environmental targets. A further € 9.45 billion comes from the EAFRD and around € 0.22 billion from the EMFF. The ESI Funds are co-financed by national public or private funds.

The Strategic Progress Report 2019 summarizes and evaluates the results of the implementation of the ESI-Funds for the first five years of the implementation period. It focuses on the contributions to the strategic objectives of the Europe 2020 strategy, as well as various other aspects such as the development of administrative burden for beneficiaries and administrations, the contribution to territorial development or the mainstreaming of cross-cutting objectives.

The implementation started with a significant delay, as stated in the 2017 progress report. Significant progress has been made since 2016, but the delays of the initial phase could not always be fully compensated. Nonetheless, the programmes have achieved the intermediate objectives for 2018 almost in full, and first impacts are visible and contribute to the objectives
of the EU 2020 strategy. The reasons for the initial delayed implementation are manifold and conditioned by both EU and regional aspects. The reform of the funds in preparation of the actual funding period has created new requirements for the Managing Authorities. These requirements have proven to be time-consuming and extensive. In addition, delays in the timely publication of the relevant European documents (guidelines, etc.) made it difficult to start subsidizing at an early stage. After implementing the new regulations and requirements, the interventions were successfully started.

With regard to content, a thematic concentration was pursued in the ESI Funds, which should focus on a few interventions in order to increase the efficiency and effectiveness of the measures. In addition, a more supportive (measurable) output has been implemented, with a key role being played by the performance framework, its system of indicators, targets and milestones, and the performance reserve.

Within the German ERDF OP, a concentration on a few thematic objectives can be observed. The programmes focus on TP 1 (Research and Innovation), TP 3 (SMEs) and TP 4 (CO2 emissions). To a lesser extent TP 5 (climate change and risk prevention), TP 6 (environment and resource efficiency) and TP 9 (social inclusion) were addressed. Implementation in research and innovation and the promotion of SMEs has made great progress, while in the other thematic objectives, implementation has fallen short of expectations. This has also means that the intermediate objectives of the performance framework in individual ERDF priorities have not been met in ten Operational Programmes.

The federal and state ESF OPs cover three thematic objectives, TP 8 (quality employment and labor mobility), TP 9 (social inclusion) and TP 10 (education, training and lifelong learning). All three thematic objectives show advanced implementation and the intermediate targets of the performance framework are not met in only three OPs.

Since not all expected progress and simplifications, that were related to the reformed funds upfront the actual funding period, were achieved, an adjustment of the funding content and the organizational framework is planned in preparation for the funding period from 2021 to 2027. The emphasis is on strengthening the link between the challenges identified in the European Semester for Germany and Cohesion Policy (EU COM SWD (2019) 1004 final, 27.2.2019). This goes hand in hand with further thematic concentration and administrative simplification, both for the benefit of the potential beneficiaries and the managing authorities. In the following, some selected aspects of funding from 2021 onwards will be discussed, using the findings of the current funding period from the Strategic Progress Report 2019. First, the ERDF and ESF will be considered, followed by organizational and administrative aspects, which in principle apply to both Funds.

**ERDF**

According to the current state of the design of funding in the period from 2021-2027, the ERDF will focus on the policy objectives (PO) 1 ("a smarter Europe, innovative and smart economic change") and 2 ("a greener CO2-poor Europe including the energy transition, circular economy, adaptation to climate change and risk management "). At least 85% of the funding for Germany has to be allocated to these two PO. The ERDF programmes will also target PO 5 (a closer to citizens Europe, sustainable development of urban, rural and coastal areas and local initiatives), with a total of at least 6% dedicated to sustainable urban development. In
Germany, a total of 8.2% of ERDF funds are earmarked for sustainable urban development in the current funding period, so that this requirement seems to be achievable in the coming funding period.

- Within the Investment Guidelines of Annex D of the Country Report, PO 1 refers to the development of research and innovation capacities, the introduction of advanced technologies, private R&D, especially in SMEs, support to SMEs and a cycle-oriented and resource-efficient economy. Already in the current funding period, the above topics are central components of funding within the ERDF. Their implementation is well advanced and demonstrates the high demand for assistance in R&D and innovation. It can be expected that they lead to positive contributions to the productivity growth of the whole economy and to the competitiveness of SMEs.

Continuing funding in these areas is welcome and the overall direction is supported. It should however be noted, that targeting SME support exclusively with a focus on innovation and innovative start-ups can be problematic, especially for the less well-developed German regions. Often these regions do not have the prerequisites for creating innovative companies or generating innovations. Rather, their regional development and stabilization also depends on the growth of existing export-oriented SMEs and start-ups. Furthermore, SMEs are often exposed to financial market restrictions that hinder them to grow independently. From this point of view, broader SME support in Germany is also appropriate and particularly beneficial for the lagging regions.

- Within the current funding period, CO2 reduction as well as climate change and risk prevention measures are of considerable importance. In PO 2 of the upcoming funding period these forms of intervention are still anchored. Based on the implementation experience during the current funding period, it can be concluded that the implementation was not always an easy task and that implementation delays are observed. In this context, the managing authorities refer to complex forms of assistance, which delayed some projects or even worse they did not take place. In designing the funding for the next period, the simplest possible funding conditions and approaches should therefore be initiated, which allow rapid implementation to address the targeted regional goals and needs.

- Sustainable urban development will play an important role in the funding period from 2021 onwards. The results of the progress report show that there are many obstacles to the implementation in this area and there have been major delays. In particular, the complexity of competition procedures, the need to address at least two thematic objectives and specific (regional or territorial) requirements, such as the existence of a regional development plan for the implementation as for example achieving energy efficiency or similar interventions, should be reconsidered since the measures and the requirements are essentially unconnected. Here, simpler approaches and less biased configurations are likely to be more helpful in achieving the objectives. The draft proposals for the new funding period implement sustainable urban development in form of "local community-led local development", "integrated territorial investment" and "other territorial instruments", considering various critical aspects of the current implementation and it seems that a simpler implementation of the measures seems possible.
ESF

According to the proposed regulations of the European Commission, the implementation of the ESF in the next funding period should be carried out exclusively within PO 4 (“A social Europe - the implementation of the European Pillar of Social Rights”). Other policy aims are to provide contributions of a merely complementary nature. The possible fields of application for the ESF, which are outlined with the specific objectives in Article 3 of the proposal for the ESF+ Regulation, correspond in large to the fields of application of the current funding period. The Commission proposes to raise the minimum share for promoting social inclusion from currently 20% to 25% within the thematic concentration. From the point of view of the European Parliament, an even higher increase is expected (to 27%). For Germany, such a stronger concentration should not be a challenge. In Germany, 32% of ESF funding is planned in the area of social inclusion or the thematic objective 9 for the current funding period.

The priority areas of intervention identified by the European Commission in Annex IV of the Country Report essentially relate to fields of activity, target groups and instruments that already play an important role in the promotion of federal and state ESF assistance today:

- As outlined in the progress report, during the 2014-2020 funding period, the ESF is making a significant contributions to reducing educational disadvantages resulting from social background and / or a migrant background through a range of measures. The focus is on education and training of the young generation. In view of the increasing shortage of skilled workers on the one hand and continuing problems in the education system on the other hand, it is useful to continue the corresponding priorities in the years from 2021 onwards. In addition, continuing vocational training will gain importance as an instrument for securing skilled labor. However, it must be determined what role the ESF plays in this context against the background of increased national funding (keyword: "Qualification Opportunities Act") and the expected higher financial commitment of enterprises.

- Individualized support and support services, as outlined in the Investment Guidelines, already characterize the ESF's involvement in social inclusion and poverty reduction. The German ESF programmes have in recent years combined the promotion of employment and training with complementary support services to tackle the social problems of participants and strengthen employability and social participation. Increasingly, in addition to the individual participants, families affected by poverty, including their children, were taken into consideration. The corresponding funding approaches should be continued and developed in the next period. However, ESF support for social inclusion should continue to focus on access to work and education. The use of ESF should not be focused on the social and health care of families and children at risk of poverty since there are different responsibilities and funding sources in Germany.

- In the current funding period, the Federal Government and the federal states are supporting in many ways the better exploitation of women's employment potential. Appropriate funding approaches include both personal and structural support approaches, and include access to employment for previously unemployed women, increasing the workload of working women, and improving opportunities for advancement. The shortage of skilled workers in this area argues in favor of
strengthening the corresponding funding approaches, which at the same time serve to increase gender equality.

- Some current fields of application of the ESF in Germany are not addressed in the investment guidelines for PO 4. This mainly concerns tertiary education, human resources development in science, research and innovation as well as the promotion of start-ups and entrepreneurship. However, these applications represent areas of investment that will continue to be important in Germany in future for securing skilled labor as well as for increasing the competitiveness of regions. This applies especially to the transition regions.

**Implementation / Administrative burden**

Since the beginning of the funding period, numerous approaches have been taken in the German ERDF and ESF programmes to reduce the administrative burden on the beneficiaries. This included thematic concentration, streamlined implementation structures, better information, the increased use of simplified cost options and electronic filing and funding. Many of the measures taken have led to noticeable relief for the beneficiaries. The progress made, however, is relativized by the fact that the administrative requirements have continued to increase as a result of the European regulations. A real breakthrough in terms of administrative simplification could therefore not be achieved.

The 2017 Progress Report outlined the need for substantial relief for beneficiaries and administrations to reduce the density of regulations and administrative requirements at European level. The draft regulations of the European Commission are taking major steps in this direction. For example, the streamlined set of rules, which already contains many implementing provisions as part of the basic Regulation, relinquishes a designation procedure, reduces test density and increases financial flexibility in program implementation. The steps in this direction suggest that the implementation of programmes in the next funding period will be faster than it was in the current funding period.

The additional administrative burden associated with the performance reserve has also contributed to the administrative burden of the current funding period. This applies to programmes in which OP revision procedures were used to safeguard the reserve, which would otherwise not have been or would not have been necessary at that time or to the same extent. Positive effects in the sense of achievement orientation and better control of the programmes have not been achieved by the performance framework in the German Structural Funds programs. This is mainly due to the necessarily coarse indicators and the fact that the achievement of objectives depends to a great extent on a large number of additional factors (including external ones).

According to the Commission's proposal, the performance framework will in future no longer be linked to the performance reserve, which should be abandoned, but to a two-phase programming (5 + 2 years) scheme and the mid-term review in 2025. This means an improvement insofar as the performance framework is much more closely embedded in the partnership dialogue between the Member State and the European Commission. For the Member State and the Managing Authorities, however, the performance framework will also mean considerable effort, even in the new form.