BRIEFING

Initial Appraisal of a European Commission Impact Assessment 2021-2027 MFF

European Regional Development Fund, Cohesion Fund, a cross-border mechanism and Interreg

Impact assessment (SWD(2018) 282, SWD(2018) 283 (summary) accompanying Commission proposals for regulations of the European Parliament and of the Council on the European Regional Development fund (ERDF) and on the Cohesion Fund (CF), on a mechanism to resolve legal and administrative obstacles in a cross-border context and on specific provisions for the European territorial cooperation goal (Interreg) supported by the European Regional Development Fund and external financing instruments (COM(2018)372, 373, 374)

This note is one of a series of brief initial appraisals of European Commission impact assessments (IA) accompanying the multiannual financial framework (MFF) proposals, tailored to reflect the specificities of the MFF package and the corresponding IAs.[1] *It provides an initial analysis of the strengths and weaknesses of the IA accompanying the three above-mentioned proposals, adopted on 29 May 2018 and referred to the Committee on Regional Development (REGI).*

Political and legal context; objectives

Following a description of a wide range of policy challenges, the IA presents lessons learned relating to the content and, in particular, the delivery of cohesion policy (IA, pp. 10-17).[2] On the basis of ex post evaluations of previous programmes and stakeholder consultations, the IA identifies **two crucial major challenges** for the period after 2020: first to ensure economic transition (by smart and low carbon growth) and second to simplify delivery of the policy (IA, p. 14).

The IA maintains the **general objective** of the Treaties, aiming to reduce regional disparities and achieve economic, social and territorial cohesion (IA, p. 21). This is broken down to **five policy objectives:** 1) smart economic transformation, 2) a low carbon economy, 3) a more connected and 4) a more social European Union (EU) and 5) more closeness to citizens. The IA details these objectives by means of *seven policy responses*, apparently broken down into 23 *specific objectives* with target indicators in Table 11 that resemble 'operational objectives' as defined by the Better Regulation Guidelines (IA, pp. 23, 45-51).[3]

Programme structure and priorities; delivery mechanisms of the intended funding

Under the baseline scenario, 'if ERDF and CF continue as at present', the IA expects positive effects for all 27 Member States, average gross domestic product (GDP) growth of 2.7% in the EU-13 and at least 0.01% in well-developed EU-14 regions in 2030 (IA, pp. 18-19).[4] The 'real term reduction of around 10 % of the budget for the ERDF and CF' in the 2021 to 2027 MFF seems to be the main issue to tackle for the IA, as it is at the core of the three screened policy options (IA, pp. 4, 29-31): **option 1** proposes to cut funding across all thematic areas and regions proportionately, **option 2** envisages geographic concentration of the funding on cohesion countries (or the EU-13)[5] while reducing funding in more developed regions. **Option 3** implies, like option 1, a proportionate cut in funding in all regions, combined with greater thematic concentration on innovation, the environment, broadband and SMEs (relating to the first three policy objectives) (IA, pp. 23, 31-38). The definition of the options is brief and rather vague regarding their concrete content. They do not address all the specific objectives described above.

Author: Esther Kramer
Ex-Ante Impact Assessment Unit
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The IA does not mention any discarded options, apart from the baseline, considered 'not realistic' on account of the reduced budget and changed GDP in the Member States, but nevertheless used as a benchmark as required by the Better Regulation Guidelines (IA, p. 29). The assessment of the options' potential impacts contains qualitative and quantitative elements, concentrating mainly on macroeconomic benefits in terms of GDP growth for EU-27, cohesion and non-cohesion countries (IA, p. 32-33). It neglects other direct and indirect effects, such as employment, social and territorial cohesion and the environment.[6] For spending programmes, the better regulation toolbox also requires, in the framework of a thorough risk assessment, a look at exposure to fraud. The IA does not explore this, although it is considered important in the debate on the funds' effectiveness and efficiency[7] (tool 25).

According to the IA, the **preferred option 3** would generate the highest GDP growth for all countries in 2040, while in 2030, options 1 and 2 would entail the highest GDP growth for non-cohesion and cohesion countries respectively (IA, p. 32). The IA could have explained when or why this shift to option 3 occurs, as the relevant illustrations seem incomplete.[8] According to the IA, option 3 also provides added value by contributing to innovation, thereby to the EU's economic transition and the development of lagging regions. In this context, the IA could have discussed (and substantiated) in more detail how the preferred option will contribute to the general objective of reducing regional disparities in the EU (IA, p. 34). There is no cost-benefit assessment of the options, social and administrative costs are only mentioned later, in the context of simplification (IA, pp. 41, 62).

The IA does not present alternative options for other changes to the implementation of ERDF and CF, a cross-border mechanism or Interreg.[9] Some expected effects of the proposed measures are discussed in the IA, including the achievement of the five policy objectives, simplification, reduced co-financing rates, the allocation of national envelopes, synergies with other policies, the use of financial instruments, 'enabling conditions' (formerly 'ex-ante conditionalities') and links to the European Semester process (IA, pp. 52-62). The issue of the funds' absorption is not assessed, nor are specific impacts on rural, urban, isolated, dispersed or other generally lagging regions.

Budgetary or public finance implications

The IA refers to €273 billion for the ERDF and CF for the period 2021 to 2027, the two other proposals have no budgetary implications (IA, p. 5).[10]

SME test / Competitiveness

The IA notes that 75 % of SMEs supported by the ERDF and CF are located in non-cohesion countries and contribute to innovation, but it does not assess the impact of the options, or of the other measures, on them specifically (IA, pp. 25, 36, 41-42). It highlights the coherence with the EU Competitiveness of Enterprises and SMEs (COSME) programme (IA, p. 52-53).

Simplification and other regulatory implications

Identified as one of two crucial challenges, the need for simplification is reiterated throughout the IA, in line with initiatives in recent years (IA, pp. 62-68). The IA highlights the trade-off between simplification and appropriate financial and risk control (IA, p. 63). Proposed measures, such as the extension of simplified cost options, and simplified programming, authorisation and auditing, are expected to reduce administrative costs by 20 or 25 %, as well as errors and irregularities. The substantiation of these effects could have been more transparent (the relevant studies have not been published).

Subsidiarity / proportionality

The IA is convincing in its explanation of the added value of EU action through the ERDF, the CF and cross-border cooperation, and the contribution of shared management to subsidiarity, basing it on the ex-post evaluation of previous programming periods and the public consultation (IA, pp. 24-27). Smart specialisation strategies, SME support and cross-border projects are highlighted in this context (IA, pp 24-29). The simplification measures and the new regulation for a cross-border mechanism are expected to ensure proportionality (IA, pp. 43, 63-66, 75). At the time of writing, the Swedish Parliament had sent a reasoned opinion on the proposal for a regulation on a cross-border mechanism.

Quality of data, research and analysis

The IA draws on several ex-post evaluations of the preceding programmes, noting the time gap between the evaluations and the preparation of the new cohesion programmes, which makes the application of the 'evaluation first' principle difficult (IA, pp. 12-13).[11] The evaluations were complemented by a survey on the delivery system, desk research and numerous extensive external studies. The IA refers repeatedly to them, but some are not publicly available, so that claims of the IA cannot always be checked (IA, pp. 63-64). Generally, the evidence-base appears to be sound, citing, inter alia, the Open data platform, Eurostat and data sources from the Member States.

The structure of the IA could have been more straightforward, especially the link between the objectives and the options. Relevant sources are not always properly indicated, limiting the transparency and accountability of the analysis (unspecified SWDs and studies, IA, pp. 16, 25, 53-54, 64, 66-67). Inconsistent references to the EU-13, EU-14, cohesion and non-cohesion countries make comparisons difficult, and certain graphs and tables could have benefited from additional explanations to clarify claims and conclusions (IA, pp. 18, 31-32, 45-51). The IA gives no information at all about the assumptions, and thus uncertainties, underlying the analysis, and very little about its methodology or the macro-economic models used, QUEST and RHOMOLO.

Stakeholder consultation

The Commission conducted six online public consultations on the MFF proposals, clustered by policy areas, rather than one online public consultation for each accompanying IA as normally required by the Better Regulation Guidelines. Instead of the mandatory 12-week duration, these six public consultations ran for eight weeks (from 10 January to 9 March 2018). The open public consultation on 'EU-funds in the area of cohesion' mixed cohesion policy funds and other EU funds that are not managed under shared management.[12] It received 4 395 replies, which were analysed by external contractors (IA, pp. 80-90). The IA points out, though without providing a break-down, that very few stakeholders supported option 2 (IA, p. 34). It cites an additional survey of 2 500 stakeholders on the delivery system, as well as the 2017 Cohesion Forum and other unspecified 'debates and exchanges' as sources (IA, p. 12, 80).

Monitoring and evaluation

The IA suggests improving the existing monitoring system for the ERDF and CF, which is characterised by the shared management system, by introducing direct result indicators to complement output and result indicators, as well as more frequent electronic data exchange (IA, p. 73). It also suggests five main criteria and a toolbox to streamline the obligatory evidence-based 'impact evaluations' carried out by the Member States, as well as measures to improve data availability, while the Commission's ex-post evaluation is scheduled to be available by 2024/5 (IA, p. 75).

Commission Regulatory Scrutiny Board

The Regulatory Scrutiny Board issued a negative opinion on the draft IA on 18 April 2018, then a positive opinion with reservations on a revised IA on 7 May 2018. While some comments have been taken into account in the final IA, the specificities of the preferred option, the development and some effects of the proposed delivery mechanisms, as well as of the new cross-border mechanism, remain unclear.

Coherence between the Commission's legislative proposals and the IA

The proposals follow the IA's preferred option, with thematic concentration and simplification measures for all regions. As regards the individual measures, a detailed analysis would be necessary.

Conclusions

As part of the group of specific IAs accompanying the MFF proposals, this IA provides a good description of policy challenges and 'lessons learned' from previous programmes. It addresses a reduction of 10 % of the budget for the ERDF and CF with three broad policy options, assessed mainly in terms of their effect on EU GDP growth by 2030 and 2040. Social and environmental impacts are not directly assessed. The potential impacts of the proposed measures for the various aspects of the funds' delivery are discussed rather generally, without screening alternative options. The evidence-base and expertise of the IA appears to be sound, but could have been presented in a more transparent way. A more coherent structure would have contributed to the IA's overall clarity. Also, additional explanations regarding the assumptions (and uncertainties) underlying the analysis, as well as regarding certain claims and conclusions could have increased the IA's completeness, precision and accountability.

ENDNOTES

1 The almost parallel adoption of the spending programmes and the MFF proposals had an impact on the IA process and resulted in simplified IAs, with their format and scope differing from the standard IAs as defined by the Commission's Better Regulation Guidelines (see also tool #10 Financial Programmes and Instruments).

2 The identified lessons for delivery are: the need for flexibility, simplification, a focus on results and the potential of financial instruments (IA, pp. 11-12).

3 According to the Better Regulation Guidelines, objectives should be 'SMART' (specific, measurable, achievable, relevant and time-bound). The 23 specific objectives and target indicators to monitor their achievement appear only in Table 11.

4 EU-13: the Member States that have joined the EU since 2004); EU-14: all other Member States. Cohesion countries: the EU-13 plus Greece and Portugal. The IA takes Brexit into account, consistently using EU-27 as the reference for all estimations.

5 The IA, p. 33, refers to 'cohesion countries' under option 2, but p. 31 to the 'EU-13', thus excluding Greece and Portugal.

6 This is contrary to the minimum standards of the Better Regulation Guidelines, requiring thorough consideration of all relevant impacts, in any case economic, social and environmental effects.

7 See for instance European Court of Auditors, special report, 2015.

8 Figure 6 suggests that option 2 brings most EU GDP growth in 2037, whereas Table 8 indicates the highest EU GDP growth for 2040 under option 3 (0.46%), without showing when and how this shift is expected to occur (IA, p. 32).

9 The Interreg proposal (COM 2018/374) (p.8), refers to 'two options' dealing with a 7 % budget reduction (they resemble options 2 and 3 of the IA).

10 In the proposal (COM(2018)372), the Commission indicated the budget in constant prices (around €242 billion).

11 For instance, the evaluations of the 2007-2013 period became available in 2016, whereas preparation of the legislation for 2014 to 2020 began in 2011.

12 The quality of the questionnaire was criticised by some stakeholders, noting 'inaccuracies' and 'biased conclusions', see CPMR analysis: Fact-checking the consultation on 'EU funds in the area of Cohesion', January 2018. In August 2018, the responses to the consultation had not been published, despite the Commission's announcement that it would do so 'shortly after the end of the consultation'.

This briefing, prepared for the REGI committee, analyses whether the principal criteria laid down in the Commission's own Better Regulation Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal.

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eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

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