**MEMO/11/663**

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# Q&A on the legislative package of EU regional, employment and social policy for 2014-2020

Cohesion policy is implemented through programmes which run for the duration of the EU seven-year budget cycle. The current 455 programmes are foreseen until 2013. This is why it is necessary to define the architecture of the policy for the new generation of programmes and allocations for 2014-20. Today's legislative package includes an overarching regulation setting out common rules governing 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). One set of rules instead of 5. Three specific regulations for the ERDF, the ESF and the Cohesion Fund will also be included, as well as two regulations dealing with the European territorial cooperation goal and the European grouping of territorial cooperation (EGTC). The Commission also adopted proposals for two instruments in the area of employment and social policy, namely the European Globalisation Adjustment Fund (EGF) and the Programme for Social Change and Innovation (PSCI), as well as a communication on the European Union Solidarity Fund (EUSF).

## Why a new legislative package?

Since the EU has defined new long-term objectives for growth and jobs ("Europe 2020 strategy"), there is a need to align the policy better to these goals for achieving the agreed targets on employment, education, poverty, innovation, research & development (R&D) and climate (renewable energy, energy-efficiency and greenhouse gas emissions). This implies tackling the impact of the global economic crisis, unemployment and poverty, climate change, and other challenges that affect all EU regions. Given their share of the EU budget (more than one-third), cohesion policy instruments are key in boosting Europe's economic competitiveness, fostering social cohesion, and creating more and better jobs.

## Which are the new elements in the package as compared to the past?

- **Concentration on "Europe 2020":** Partnership Contracts, agreed between the Commission and Member States, will set out the commitments to concrete actions to deliver Europe 2020 objectives. Minimum allocations are fixed for a number of priority areas where the EU has set itself goals. For example, in more developed and transition regions, at least 80% of ERDF resources at national level will be allocated to energy efficiency and renewables, innovation and the improvement of the competitiveness of Small and Medium-sized Enterprises (SMEs). This amount will be 50% in less developed regions, reflecting their broader development needs. ESF investments will be fully aligned with EU objectives and targets on employment, education and poverty reduction. A minimum of 20% of the national ESF allocation will have to be allocated to investments combating social exclusion and poverty.
- **Better coordination of various EU actions:** A Common Strategic Framework contains the EU's top priorities and will apply to all funds, including rural

development and fisheries. All Partnership Contracts tailored for and with each Member State will find a single European reference frame in the Common Strategic Framework. Member States will be allowed to combine ERDF, ESF and Cohesion Fund in "multi-fund" programmes to better suit their growth plans, improve coordination on the ground and achieve integrated development. The purpose is to allow the biggest impact on the ground.

- **Rewarding performance:** EU funding will offer strong incentives to deliver Europe 2020 objectives. Some "ex-ante" conditions must be in place before the funds are disbursed (for instance, the proper functioning of public procurement systems). Also, the release of additional funds will be contingent on performance - "ex-post" conditions.
- **Sound macro-fiscal environment:** To ensure that the effectiveness of the funds is not undermined by unsound macro-fiscal policies, the Commission proposes to establish a tighter link between cohesion policy and European economic governance, such as the excessive deficit procedure, excessive imbalances procedure and the European semester of economic policy coordination. It means that programmes financed by the Funds can be adapted to changing economic circumstances. In certain situations, the Commission could request the review of the Partnership Contract to support the implementation of Council recommendations. Failing to take remedial actions may lead to suspension of funding.
- **Reinforcing territorial cooperation:** The territorial cooperation among regions (cross-border, transnational and interregional) is reinforced, since it offers clear EU added value..
- **Territorial cohesion:** there will be a clear focus on sustainable urban development with at least 5% of the ERDF resources allocated for "integrated actions" (with investment from different programmes) in this field by each Member State. In addition, the Commission will launch calls for innovative actions in urban areas and make ESF human capital investments in cities easier. Particular attention will be paid also to areas with specific natural or demographic features, with a specific additional allocation for the outermost regions and sparsely populated areas.
- **Further simplification** of the policy is a guiding principle (such as introducing simplified reimbursement rules, possibility to implement funds on the basis of joint action plans paid on the basis of results, harmonising eligibility rules and management and control systems between different EU funds, etc).

## What categories of regions after 2014?

Regions will continue to receive support within three (3) defined categories:

- less developed regions, whose GDP is below 75% of the Union average, will continue to be the top priority for the policy.
- transition regions, whose GDP is between 75% and 90% of the EU 27 average.
- more developed regions, whose GDP per capita is above 90% of the average.

The second category would cover 51 regions and more than 72 million people, including 20 regions that are forecasted, as of 2014, to move out of the current "convergence" objective (less developed regions), reflecting the success of the policy. The purpose of the new category is to ease the transition of these regions, which have become more competitive in recent years, but still need targeted support. It also ensures fairer treatment for regions with similar levels of economic development.

## What will be the co-financing rates after 2014?

For the new category of transition regions the maximum co-financing rate will be 60% from EU side. The other ceilings for co-financing rates remain unchanged, i.e. maximum 50% for the most developed regions, maximum 85 % for the less developed regions and maximum 85 % for the Cohesion Fund.

## Why should there be a specific support for "transition regions"?

The objective of the new transition system, covering regions with a GDP per head between 75% and 90%, is to treat regions at a similar stage of economic development uniformly.

As an example, if the current system would be maintained, the Polish region of Mazovia (GDP per head of 86% of the EU average) and the region of Inner London (GDP per head of 338% of the EU average) would be subject to the same rules. The new transition system allows more flexibility and differentiates between these two regions, in terms of the level of funding available, priority areas for investment, applying different co-financing rates etc.

## Are there new funds in 2014-20?

Cohesion policy's investment will be channelled through the same three funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. Apart from these three funds, the Commission is proposing to maintain and strengthen the European Globalisation Adjustment Fund.

A new facility will be created called the "Connecting Europe Facility" (CEF). It aims to accelerate the development of priority infrastructure that the EU needs in transport, energy and information technologies. €10 billion of the Cohesion Fund will be ring-fenced for this facility which will be managed directly by the Commission.

The Cohesion Fund will continue to support transport infrastructure in Member States with a GNI below 90% of the EU average.

## What are the "contracts" signed between the Commission and the Member States?

In 2013, each Member State will be asked to draw up Partnership Contract where they will assess their development needs and define their national priorities supporting their National Reform Programmes and the achievement of their national targets for delivering on the Europe 2020 strategy. The Partnership Contract will contain notably:

- thematic objectives (Member States can choose out of a menu of 11 objectives in line with the "Europe 2020" strategy);
- investment priorities for each thematic objective;
- conditions which will be the pre-requisite to EU funding (see below);
- targets that the Member States plan to reach by the end of the programming period, as well as performance indicators and milestones.

The Partnership Contract will constitute a firm agreement between the Commission and the Member States regarding the use of funds and performance. Failure to achieve progress may lead to suspension or cancellation of funding.

## Why are rural development and fisheries included if they are not part of cohesion policy?

The objective is to improve the coordination of different EU funds, make them reinforce each other around the same economic goals, cut the red tape and maximise their added value.

- At the EU level, a "Common Strategic Framework" will translate the Europe 2020 objectives and targets into concrete investment priorities for cohesion policy, rural development (European Agricultural Fund for Rural Development-EAFRD) and maritime and fisheries policy (European Maritime and Fisheries Fund-EMFF). The Commission is expected to adopt a Communication on the Common Strategic Framework by December 2011, which will be followed by a public consultation.
- At the national level, in their Partnership Contract, Member States will outline how they plan to coordinate the different EU funds.
- Harmonised eligibility and financial rules for all 5 Funds are also designed to streamline financial management and monitoring. This streamlining can lead to a significant reduction in the administrative burden and help beneficiaries access the Funds.

## Since the Member States are now targeting EU investment on a more limited number of priorities, which sectors will no longer receive support?

To ensure that EU investments are concentrated on those priorities which maximise European added value and contribute to the economic growth, the draft regulations include minimum allocations for a number of areas where the EU has made concrete commitments. For example, in more developed and transition regions, at least 80% of ERDF resources at national level would be allocated to energy efficiency and renewables, innovation and support for small- and medium-sized enterprises (SMEs). This amount is foreseen at 50% in less developed regions, reflecting their broader development needs. In line with the EU's commitment to inclusive growth, at least 20% of the ESF should be allocated to promoting social inclusion and combating poverty.

The proposals also ensure that there is sufficient flexibility for Member States and regions to focus on investments in line with their own development needs and challenges set out in their National Reform Programmes. A number of areas will be excluded from cohesion policy support altogether, such as the decommissioning of nuclear power stations or the tobacco production.

## The Commission is proposing the introduction of conditions, which could potentially lead to the suspension of funding. How will this work in practice?

The Commission is proposing:

### 1) Conditions linked to the direct implementation of the policy:

This would take the form of both ‘ex ante’ conditions that must be in place before funds are disbursed and 'ex post' conditions that will make the release of additional funds contingent on performance (see next question).

Ex-ante conditions will be defined in the Partnership Contract at the beginning of the programming period. For example, a Member State wanting to use EU funds to invest in water management will be required to transpose the related EU environmental legislation in full.

If these conditions are not fulfilled at the start of the programming period, each Member State and the Commission will agree when they should be fulfilled. If

conditions are not fulfilled by the agreed date, the Commission may decide to suspend all or part of programme payments until such time as the necessary actions are carried out.

**2) Conditions linked to macro-economic conditions:**

The effectiveness of cohesion policy in promoting growth and jobs depends significantly on the economic environment in which it operates. Past experience suggests that the funds in some instances have not delivered expected outcomes due to unsound macroeconomic framework conditions. Establishing a tighter link between cohesion policy and the European semester of economic policy coordination would, therefore, ensure coherence between macroeconomic policies at national level and investments through European programmes. Thus, the Commission is proposing that when a country faces economic difficulties, the Commission can invite the Member State to revise its strategy and programmes. Only if the economic situation becomes so serious to undermine the effectiveness of cohesion investment, continued support from the Cohesion Fund, the ERDF the ESF, the EAFRD and EMFF will become dependent on the fulfilment of certain fiscal or economic conditions. This "conditionality" has already existed for the Cohesion Fund, but the process of the suspension of funding will now be more automatic and extended to all funds.

## How will the best-performing programmes be rewarded?

In order to strengthen the focus on results and the achievement of the Europe 2020 objectives and targets, 5% of the cohesion budget will be set aside and allocated, during a mid-term review, to the Member States and regions whose programmes have met the milestones fixed in the contracts.

## Simpler management: what are the main proposals in concrete terms?

- **harmonisation of eligibility rules** related to the different EU funds;
- a move towards **e-cohesion**: beneficiaries will be able to submit all information electronically;
- a wider use of **"simplified costs",** e.g. the use of flat rates to calculate some categories of costs (for example rates to calculate costs which are not directly linked to the project, but are necessary for its implementation, such as overhead costs), as well as of standard scales of unit costs and lump sums - this will reduce administrative burden and contribute to greater focus on results;
- an **easier application system for "major projects**' whose total funding is above €50 million and which will require the prior approval of the Commission;
- the **role of financial instruments** (such as JEREMIE or JESSICA) is clarified to leverage more investment with a limited amount of cohesion policy resources;
- the possibility for Member States to merge and reduce the number of authorities in charge of cohesion policy.

## What is the Joint Action Plan?

The Commission is giving the Member States a new possibility to implement parts of programmes using a result based instrument called a "Joint Action Plan". The Plan will be managed and paid exclusively on the basis of the result and of the milestones necessary to reach this result agreed jointly between the Member State and the Commission. In practice it will make it possible to link payments to outputs or results on a large scale. This innovative possibility will offer a simplified management and control system and will reward performance rather than financial input.

## What are the changes for the European Social Fund?

The aim of the European Social Fund is to improve employment opportunities, promote education and life-long learning, enhance social inclusion, contribute to combating poverty and develop institutional capacity of public administration. It is the key EU instrument for investment in people. Around 10 million final beneficiaries are supported by ESF every year, increasing their chances of finding a job. With the new proposal, the role of the ESF will be reinforced:

- there will be a **minimum share of** the **budget** allocated to each category of regions that will be higher than before (25% for less developed regions, 40% for transition regions and 52% for more developed ones). This share corresponds to at least €84 billion for the ESF, compared to the current €75 billion;
- Member States will have to **concentrate** the ESF on a limited number of objectives and investment priorities in line with the **Europe 2020** Strategy, in order to increase impact and reach a critical mass;
- a **minimum** share of **20%** of the ESF will be dedicated to **social inclusion** actions;
- a greater emphasis is placed on combating youth unemployment, promoting active and healthy ageing, and supporting the most disadvantaged groups and marginalized communities such as Roma;
- greater support will be provided to **social innovation**, i.e. testing and scaling up innovative solutions to address social needs, for instance to support social inclusion;
- the participation of social partners and civil society, in particular Non Governmental Organisations (NGOs), will be further encouraged in the implementation of the ESF, through capacity building, the promotion of community-led local development strategies and the simplification of the delivery system. Rules governing the reimbursement of projects by the ESF will be **simplified**, in particular for "small" beneficiaries – NGO's, small- and medium-sized enterprises and others who make up at least 50% of recipients of ESF funding;
- **equipment** linked to investments in social and human capital will become **eligible** for support from the ESF.

ESF could also be used as a guarantee for loans taken by Member States' bodies, in order to finance measures within its scope of intervention.

## What are the changes for the European Globalisation Adjustment Fund?

The Globalisation Adjustment Fund is made more operational and fairer: While maintaining the basic eligibility criteria, the Fund would also be able to assist workers with temporary contracts and those that are made redundant as a consequence of an unexpected and major crisis. Time periods for approving Member States' applications will be shortened by imposing new deadlines and streamlining procedures. The EGF will also be able to assist farmers in adjusting to new conditions resulting from the conclusion of international agreements.

## Why do we need the European Globalisation Adjustment Fund (EGF) in the future?

The EGF has a key advantage compared to other instruments. It provides one-off, targeted support specifically to workers who have lost their job because of trade globalisation or, more recently, the financial and economic crisis. It is an emergency

intervention instrument that can step in when sudden massive job losses have an unexpected, severe impact on employment and the local economy.

Since the start of its operations in January 2007 up to 30 September 2011, the Commission has received 78 applications for assistance from the EGF, from 19 Member States and for a total amount of €358 million, intended to help nearly 76,000 workers.

By continuing EGF, the EU wants to build on the success of the EGF in helping workers find a new job or become self-employed and thus continue to demonstrate its solidarity with workers made redundant in such exceptional circumstances.

The EGF will remain outside the budget and will be mobilized only when needs arise, on the basis of a Member State's request. The maximum available support from the EGF, over 2014-2020, shall be EUR 3 billion.

## How will the EGF work in the future?

The core mechanism of the EGF will be maintained. However, the new Regulation will bring some improvements and include some new elements.

**There are four main new elements introduced** into the new EGF Regulation:

- **The EGF will be able to help additional categories of workers** who are currently excluded in practice (e.g. temporary agency workers, workers with fixed-term contracts, self-employed workers and the managers of micro, small and medium-sized enterprises - when they have to close down their business.
- **The scope of the EGF will cover globalisation and unexpected crises**: The EGF will provide assistance to workers who have lost their jobs, and managers who have ceased their activities because of structural changes in world trade patterns, an unexpected major crisis or - in the case of farmers - the negative impacts of new trade agreements concluded by the EU.
- **The EGF funding will put more emphasis on active measures** by introducing a limitation on the allowances eligible for support.
- **The administrative burdens will be reduced.** Procedures will be simplified in order to cut down the time lag between the date of application for EGF support and the date of payment. The information that Member States need to provide in order to submit a complete application will be reduced, as well as the time span during which this information can be provided. The time available for the assessment, by the Commission, of a Member State application will be capped by the new Regulation.

## Why will EGF have specific provisions for farmers?

All workers may be affected by trade liberalisation when it leads to business restructuring. And the EGF will continue to assist these workers when the lay-offs reach the scale that requires EU level solidarity. But farmers do not easily fulfil these conditions. So, to avoid that they are left without support, EGF assistance will be opened to farmers in specific cases and on the basis of specific conditions that are more easily fulfilled.

## What has changed for European territorial cooperation?

European territorial cooperation still comprises of three strands: interregional, cross-border and transnational. A separate regulation clarifies and simplifies provisions for territorial cooperation programmes. A common concern among stakeholders has been addressed - the need for simplified rules - particularly important for programmes involving more than one Member State.

## What has changed in the policy for urban development?

The proposals highlight the important contribution of cities to Europe's growth and employment. The objective is to focus on sustainable urban development, with the Commission proposing that each Member State earmark a minimum 5% of its ERDF allocation to "integrated actions". These actions would combine investment from different priorities and programmes, and would be delegated to cities for management. An urban development platform, building on the experience of URBACT, will be created to promote capacity building and exchange of experience within the EU.

Finally, the Commission proposes to allocate part of the budget (0.2% of the ERDF allocation) to finance innovative actions in urban areas. Better coordination between fixed and human capital investments in cities will also be promoted.

## What is foreseen to overcome the issue of the slow absorption of funds?

Experience in the current period shows that some Member States have difficulties in absorbing large volumes of EU funds over a limited period of time. Delays in the preparation of projects, commitments and spending are responsible for an important backlog of unused appropriations at the end of the present financing period.

At the same time, the fiscal situation in some Member States has made it more difficult to release funds to provide national co-financing. In order to strengthen absorption of funding, the Commission is proposing a number of measures:

- to fix the maximum possible allocation, under cohesion policy, at 2,5% of Member State GNI (as opposed to 4% in the current period);
- to allow for a temporary increase in the co-financing rate by 10 percentage points in some specific cases, reducing the strain on national budgets at a time of fiscal consolidation, while keeping the same overall level of EU funding;
- to include certain conditions, in the partnership contracts, regarding the improvement of administrative capacity.

In 2007-2013, co-financing rates were increased to take into account the accession of 12 new Member States, many of which faced significant socio-economic challenges. This was always seen as a transitional measure and, given that by 2014 most of these Member States will have been part of the EU for over a decade, the Commission does not consider it necessary to sustain high co-financing rates.

## What will be the allocation for cohesion policy for each Member State and each region?

The negotiations on the whole EU budget for 2014-2020 are the subject of ongoing negotiations and discussions. In the Multi-annual Financial Framework (MFF) in June 2011, the Commission proposed to allocate **€376 billion** to cohesion policy with the following breakdown:

| Proposed budget 2014-2020 | EUR billion |
|---|---|
| Less developed regions | 162,6 |
| Transition regions | 38,9 |
| More developed regions | 53,1 |
| Territorial cooperation | 11,7 |

| | |
|---|---|
| Cohesion fund<br>Extra allocation for outermost and sparsely populated regions | 68,7<br>0,926 |
| Connecting Europe Facility for transport, energy and Information and Communication Technologies | EUR 40 billion (with an additional EUR 10 billion ring fenced inside the Cohesion Fund) |
| European Social Fund | At least EUR 84 billion (within the above allocations for less developed, transition, and more developed regions) |

**All figures in constant 2011 prices*

## What has changed for "European Grouping of Territorial Cooperation" (EGTC)

Since 2006, local and regional partners have been able to set up European Groupings for Territorial Cooperation (EGTCs), legal instruments designed to facilitate and promote cross-border, transnational and interregional cooperation. The Commission proposes significant modifications:

- easier establishment of EGTCs;
- reviewing activity scope;
- opening EGTCs to non-EU regions;
- clearer operating rules on staff recruitment, spending and protecting creditors;
- practical cooperation in providing public and local services.

## What is proposed for the European Union Solidarity Fund (EUSF)

Unlike the cohesion instruments, the EUSF is not limited in time and will continue to offer financial aid in the event of major disasters. However, its functioning should be improved. Therefore, together with the new legislative package, the Commission publishes today a *Communication on the Future of the EUSF* with proposals for making the EUSF simpler, clearer, quicker to respond and more visible for the citizens. Following discussion with Member States, the European Parliament and other stakeholders, the Communication could lead to a legislative proposal at a later stage.

## What is the EU Programme for Social Change and Innovation?

The EU Programme for Social Change and Innovation (PSCI) is an instrument managed directly by the Commission, in support of employment and social policies across the EU. Together with the European Social Fund and the EGF, it forms the third pillar of the EU Initiative for Employment and Social Inclusion 2014-2020.

The PSCI integrates three existing programmes and extends their coverage: Progress (Programme for Employment and Social Solidarity), EURES (European Employment Services) and the European Progress Microfinance Facility. It will enable the Commission to increase policy coherence and impact of its instruments, which have common objectives, thus contributing to the Europe 2020 Strategy for Jobs and Growth.

The PSCI will support policy coordination, sharing of best practices, capacity-building and testing of innovative policies, with the aim that the most successful measures be up-scaled, with support from the ESF.

## What is new for EURES?

EURES provides information and advice to job seekers and to any citizen wishing to benefit from the principle of the free movement of workers. At the end of September 2011, EURES portal hosted around 1 230 000 job vacancies, over 700 000 CVs and around 25 000 registered employers. It receives some 8 million visits per month. Around 100 000 jobseekers per year get a job or a job offer via EURES.

With the new proposal, the overall EURES system will be strengthened beyond 2013:

- the **EURES activities at national and cross-border level** will be financed under the European Social Fund, supporting workers' mobility and helping companies recruit abroad;
- at **EU level**, the **EURES Portal** will offer modernised self-service tools for jobseekers and employers. Moreover, the EU level of EURES will be used to create and develop **new targeted mobility schemes**. These will fill bottleneck and niche vacancies and will help specific groups of workers and countries which will become recipients of mobile workers. It will notably allow for the development of **Your First EURES Job** scheme. This is currently being carried out as a pilot project, under the form of a Preparatory Action, to help young people (18-30) find a job in another Member State, while encouraging SMEs, the largest group of employers in the EU, to offer young people work.

The overall EURES budget is expected to remain the same, at around 20 million euro per year, but the budget foreseen for Your First EURES Job as from 2014 will be EUR 10 million per year. This would allow for approximately 5,000 placements/recruitments of young people each year.

## What is new for the Microfinance facility and Social Entrepreneurship?

The current European Progress Microfinance Facility was launched in 2010 to help people who face difficulties in securing a traditional bank loan, get better access to microcredit and become self-employed or set up their own business. It finances loans of less than EUR 25,000 for unemployed people, people at a risk of losing their jobs or people from disadvantaged groups, for instance young or older people or migrants. The Microfinance facility does not provide direct financing to micro-entrepreneurs or individuals, but it works through microcredit providers at national, regional or local level. So far, transactions have been signed with nine microcredit providers, in 7 Member States: Belgium, the Netherlands, Poland, Bulgaria, Romania, Lithuania and Cyprus. Transactions with four further intermediaries are planned to be signed before the end of 2011.

The new programme will:

- **extend the support given to microcredit providers** under the current European Progress Microfinance Facility (launched in 2010);
- provide funding for **capacity-building of microfinance institutions**. For instance, a microfinance institution might need an IT system to deal with the growing demand or have to hire additional loan officers to better meet the needs of the target groups. This could be financially supported under the new programme;
- include investments for developing and expanding **social enterprises**, i.e. businesses whose primary purpose is social, rather than to maximise profit distribution to private owners or shareholders.

The total proposed budget for the microfinance and social entrepreneurship axis is around EUR 192 million for the period 2014-2020. Access to microfinance would receive EUR 87 million, that could result in EUR 400 to 450 million of microloans. Institutional capacity building would receive almost EUR 9 million and EUR 95.5 million would be dedicated to support social enterprise development.

## What is new for Progress?

Progress supports and disseminates comparative analytical information in the field of employment, facilitates information sharing and dialogue, provides policy makers and implementers with financial support, to test social and labour market policy reforms. It also supports the implementation of the EU legislation in the field of employment, social policy and working conditions.

For the period 2014-2020, Progress will continue its current activities (analysis, mutual learning and grants) and will have a specific budget for **social innovation and experimentation**, i.e. testing of innovative policies on a small scale, with the aim that the most successful ones can be up-scaled, including with ESF support. Out of the EUR 574 million proposed for Progress, in the 2014-2020 period, EUR 97 million will be allocated to experimental projects.

## For more information see:

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