



EUROPEAN COMMISSION

Brussels, 6.10.2011  
SEC(2011) 1142 final

C7-0335/11 EN

**COMMISSION STAFF WORKING PAPER**

**EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT**

*Accompanying the document*

**Proposal for a  
REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006**

{COM(2011) 615 final}

{SEC(2011) 1141 final}

## 1. EXECUTIVE SUMMARY

This is the Impact Assessment of the legislative proposal for a regulation laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1083/2006. (Common provisions regulation). It covers issues related to the European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund for the post 2013 programming period. It is complemented by impact assessments for the European Agricultural Fund for Rural Development and for the European Maritime and Fisheries Fund. It is part of a package of Impact Assessments which also includes the Impact Assessment of the ERDF, Cohesion Fund and ETC Regulations, and the Impact Assessment of the ESF Regulation.

Extensive public consultations have been carried out such as the High Level Group on future Cohesion Policy, a Task Force on Conditionality, and a public consultation between 12 November 2010 and 31 January 2011 on the Conclusions of the Fifth Cohesion report.<sup>1</sup>

The 5<sup>th</sup> Cohesion Report and the ex-post evaluations of the different 2000-2006 programmes provide evidence that cohesion policy has made a significant contribution to spreading growth and prosperity across the Union delivering European policy priorities, while reducing economic, social and territorial disparities<sup>2</sup>. However, there are a number of problems which need to be addressed.

### 1.1. Problem related to the capacity to deliver European added value

#### a) Geographical distribution of support

The problem relates to the optimal geographical coverage of cohesion policy. Some argue that full coverage needs to remain in place in order to support the Europe 2020 Strategy in all regions and further reduce disparities across the Union. Others argue that with ever increasing pressure on public finances, better use can be made of resources allocated to richer regions.

#### b) Concentrate on a limited number of priorities in line with the Europe 2020 strategy

There is a strong rationale for cohesion policy to **concentrate on EU priorities**. The Europe 2020 strategy provides both a clear set of common objectives, including headline targets and flagship initiatives and a clear framework for identification of funding priorities. Thus the explicit linkage of cohesion policy and Europe 2020 provides the opportunity both to continue to help the poorer regions of the EU to catch up, and to further develop cohesion policy into an important enabler of growth for the whole of the EU. For this to occur, a number of problems need to be addressed.

a) **Lack of concentration on strategic objectives.** A number of studies and ex-post evaluations have identified problems with insufficient concentration on strategic objectives,

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<sup>1</sup> "Results of the public consultation on the conclusions of the fifth report on economic, social and territorial cohesion Brussels", Commission Staff Working Paper, SEC(2011) 590 final, 13.5.2011.

<sup>2</sup> 5<sup>th</sup> Report on Economic, Social and Territorial Cohesion, November 2010. Ex-Post Evaluation of Cohesion Policy programmes 2000-06 co-financed by the ERDF (Objective 1 & 2) Synthesis Report, prepared by Applica, Ismeri, The Vienna Institute for International Economic Studies, April 2010. A more elaborate discussion on the achievements and shortcomings in cohesion policy in reducing disparities is presented in Section 2.5.

insufficient performance orientation and lack of incentives to promote concentration on delivering results. There have been attempts to address the issue of greater concentration on strategic priorities and objectives in the 2007-2013 period, but with limited impact.

- b) **Lack of predictability of funding volumes for the ESF.** Despite the importance of jobs and skills to the Europe 2020 Strategy, over the last four programming periods the importance of the ratio of ESF to (ESF, ERDF and CF) allocations has declined steadily from 40% in 1989-1993 to 22% in the current programming period.
- c) **Insufficient coordination.** Related to the two problems mentioned above is the issue of insufficient coordination and complementarity between the different funds (ESF, ERDF and CF) and other EU policies and financial instruments as well as Member State National Reform Programmes. On coordination, stakeholders often complain about the complexity generated by overlapping schemes or by lack of coordination at strategic level.

## **1.2. Problems related to the performance of the policy**

As a policy based on the principles of shared management, cohesion policy has often been characterised by a tension between on the one hand focusing on delivering the best possible results and on the other having a predictable financial allocation over a 7 year period with strict time-limited spending requirements.

### **Policy, regulatory and institutional framework conditions**

The effectiveness of the structural funds depends on sound macroeconomic policies, a favourable microeconomic environment and a strong institutional framework.

### **Macro-fiscal conditions**

The current regulatory framework foresees macro-fiscal conditionality in the Cohesion Fund to reinforce the implementation of the stability and convergence programmes and avoid excessive deficit. There is scope to revise existing rules and align it with the new SGP enforcement measures to be adopted as part of the Sixth Economic Governance Package.

### **Performance in terms of reaching objectives and targets set**

Although the ex-post evaluations of the 2000-2006 period suggest that cohesion policy has generated significant and immediate spill-overs to domestic policies, particularly in areas of strategic planning, evaluation culture, and performance orientation in national policies, a number of problems still exist with regard to monitoring and evaluation, making it difficult to judge performance.

## **1.3. Problems related to the delivery of the policy**

Sound, effective and efficient management of the delivery of cohesion policy resources requires appropriate, effective and transparent structures in national and regional administrations.

## **1.4. Justification for EU action**

EU action is justified both on the grounds of the objectives laid out in Article 174 of the Treaty and on the subsidiarity principle. The right to act is constituted by Article 3 of the Treaty on European Union, which states that "[the Union] shall promote economic, social and territorial cohesion and

solidarity among Member States", as well as by Article 175 of the TFEU which explicitly requests the Union to implement this policy by means of Structural Funds, and Article 177 which defines the role of the Cohesion Fund. The aims of European Social Fund (ESF), European Regional Development Fund (ERDF) and Cohesion Fund (CF) are defined in Articles 162, 176 and 177.

## 2. OBJECTIVES

The **general objective** is defined in the Treaty to promote balanced and harmonious development of Member States and regions and reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions.

The **specific objectives** are to assist Member States and regions to promote smart, sustainable and inclusive growth in line with the Europe 2020 strategy by addressing the specific problems. Given the scope of this IA, the specific objectives are to ensure that the Structural Funds and the Cohesion Fund are spent in:

- a way which provides a **high European value added**,
- **an effective way** – which means that they are used in a way to achieve maximum impact,
- **an efficient way** – minimizing inefficiencies by unnecessary administrative requirements or overly complicated procedures and incentivising the efficient use of resources.

Such general issues translate into the following operational policy objectives:

- **concentrating** cohesion policy resources on developing the framework conditions for sustainable development and growth is needed to achieve the highest European added value,
- providing the appropriate mechanisms within the regulations to allow for **full alignment with the Europe 2020 strategy, objectives and headline targets**,
- ensuring the **optimal coordination** between the Funds themselves and with other financial instruments,
- setting **clear and measurable targets**,
- striking the right balance between on the one hand, **low administrative costs/administrative burden** for managing authorities and beneficiaries, and **minimising the risk to the EU budget**.

## 3. OPTIONS, ANALYSIS AND COMPARISON

On 29 June 2011, the Commission adopted a proposal for the multi-annual financial framework for the period 2014-2020 which called for strengthening the effectiveness of cohesion spending. A number of options reflect the proposal in their design.

### 3.1. Delivering European added value

Under **geographical concentration of support**, Option 1 envisages a no-change scenario with concentration of support on less developed regions and current convergence regions which exceed the 75% threshold would benefit from phasing-out support. Option 2 would be similar but with the main difference that a new transition category would be established replacing the current statistical phasing-out and phasing-in regimes. Option 3 would present a more radical approach, with no cohesion policy support outside Member States with an average GNI/head of less than 90% of the Union's average per capita. Under Option 3, phasing-in and statistical phasing-out regions as well as Competitiveness regions would not be eligible for cohesion policy interventions.

Table 1: Budget allocation for each Option

	Option 1	Option 2	Option 3
Less developed regions	70.3%	67.9%	100%
Transition regions	8.4%	13.5%	0%
More developed regions	21.3%	18.6%	0%
Total	100%	100%	100%

Options 1 and 2 would ensure coverage, at different aid intensities, of the entire population of the EU. Therefore, all EU regions would receive cohesion policy support, while Option 3 would ensure that cohesion policy resources are concentrated on lagging Member States only. Only Option 2 provides more comprehensive population coverage through the intermediate region category and achieves the highest GDP growth of all options while at the same time providing high aid intensities to lagging regions.

Under **concentration on EU priorities**, Option 1 envisages the earmarking of expenditure towards Europe 2020 objectives with the Community Strategic Guidelines at EU level. Option 2 goes further with a menu of thematic objectives directly linked to the Europe 2020 strategy and defining investment priorities for the funds. Concentration on EU priorities will be reinforced by setting minimum shares of structural funds support in certain policy areas. Given the limited geographical coverage under Option 3, concentration on EU priorities only occurs in less developed Member States.

Option 1 presents a more flexible approach for Member States through the earmarking provisions, while Option 2 provides a more visible and comprehensive link with the Europe 2020 headline targets and Integrated Guidelines. Option 3 only concentrates on EU priorities in less developed countries. Therefore, the Option 2 contributes most to the headline targets, while Option 1 would lead to a fragmentation of cohesion policy interventions.

For the **visibility and predictability of funding for the ESF**, only Options 2 and 3 would ensure minimum shares for the ESF, while Option 1 would allow Member States the flexibility to negotiate their ESF allocation in line with their needs.

Under **coordination with other EU policies and financial instruments**, Options 1 through 2 represent a graduated approach towards strategic alignment with Europe 2020. While Option 1 provides a loose alignment based on non-binding Community Strategic Guidelines, Option 2 provides a more comprehensive alignment with the Europe 2020 objectives through the Common Strategic Framework and Partnership Contract, while Option 3 provides no alignment beyond formal compliance. The contribution to Europe 2020 headline targets is the highest in Option 2 due to its more binding strategic framework, while it is lower in Option 1 and the lowest in Option 3 due to its non binding nature and the lower geographical coverage.

From geographical concentration through coordination with other EU policies and financial instruments, option 2 delivers the highest European added value.

### **3.2. Increasing the performance of the policy**

#### *3.2.1. Option 1 – Status quo*

Under the no policy change option, the following **conditionalities** would continue to exist:

- macro-fiscal conditionality under the Cohesion Fund (although this has to date never been enforced),
- procedural compliance,
- compliance with sectoral EU legislation directly applicable to investment and some thematic conditionalities linked to strategic frameworks.

The main advantage of this option is no new requirements for managing authorities. The main drawback is that inefficiencies linked to poor institutional capacity, poor compliance with EU legislation, inadequate fiscal policies and strategic frameworks would continue to exist. Macro-fiscal conditionality of the Cohesion Fund would remain discretionary. The lack of a system of rewarding and incentivising performance limits the impact on the effectiveness and efficiency of the policy.

#### *3.2.2. Option 2 – Ex-ante conditionalities*

Ex-ante conditionality is linked to the fulfilment of preconditions related to strategic, regulatory and institutional frameworks as well as to the policy delivery in accordance with EU policy guidance. The preconditions may often be in place before the new generation of programmes are adopted. However, in some cases, depending on the specific context, further changes or adjustments might be necessary and tied to a binding time plan by Member States and regions. The actual implementation of the commitments would be monitored.

The main advantage of this option is that it would increase the effectiveness of cohesion spending by putting in place regulatory, strategic and institutional preconditions which are necessary for the investments to be effective. The main drawback of this option lies with the risk of delays in starting the programmes and increase in administrative burden.

#### *3.2.3. Option 3 - Performance framework and performance reserve*

A performance framework would be established which would express the intended pace of progress towards the objectives and targets set at the beginning of the period by putting in place intermediate targets – "milestones". They would be linked to commitments, outputs and where appropriate, expenditure and results. The performance framework would be agreed in the Partnership Contracts and programmes. The **performance reserve** would be allocated to the Member State for programmes/priority axes which have achieved their milestones.

The main advantage of this option is that it introduces a mechanism which incentivizes the contribution of the funds towards European objectives and targets and monitors and reports on the targets achieved. The main drawback is increase in administrative burden, the challenge of robust measurement techniques, as well as uncertainties created through suspension of programmes.

#### 3.2.4. *Option 4 - Strengthened macro-fiscal conditionality*

Macro-fiscal conditionality of cohesion policy could be strengthened in two steps:

- (i) An effective application of the existing Cohesion Fund conditionality could be ensured by revising the current provisions for its implementation such as potentially earlier triggers in the EDP, progressive suspension of all or part of the commitments in the case of repeated breaches of the SGP based on objective and transparent ex ante provisions.
- (ii) These revised rules on macro-fiscal conditionality of the Cohesion Fund could be extended to the Structural Funds as their effectiveness is also dependent on sound macroeconomic and fiscal policies which are conducive to growth.

#### 3.2.5. *Option 5 - Combination of option 2, option 3 and option 4*

This option combines all the elements of Option 2, Option 3 and Option 4, including the following elements (i) ex-ante conditionality; (ii) the performance framework and the performance reserve and (iii) strengthened macro-fiscal conditionality, including extension to the structural funds.

The main advantage of this option would be that it would address all problems identified in terms of the performance of the policy. It would ensure adequate strategic, regulatory and institutional conditions as well as sound macro-fiscal policies. It would incentivize and monitor the actual performance of the programmes in terms of reaching objectives and targets linked to objectives and targets. The main disadvantage of this option would be the increased administrative burden generated by the need to fulfil the necessary conditions and put in place the performance framework.

#### 3.2.6. *Comparing the options on performance*

The options have been assessed on the basis of their contribution to addressing the problems related to (i) strategic, regulatory and institutional preconditions, (ii) macro-fiscal conditions and (iii) performance in terms of achieving objectives and targets. To address the necessary conditions for effective investment, the options have been assessed in line with the World Bank principles on conditionalities<sup>3</sup>.

Option 1 does little to ensure the necessary preconditions needed for effective support and to incentivize the performance of the programmes; Option 2 would only address the preconditions which are necessary for effective support; however would do little in incentivizing the actual performance of the programmes; whilst Option 3 would only focus on the latter. The preferred option is the combination of option 2, 3 and 4 which would address all problems related to performance.

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<sup>3</sup> World Bank (2005), Review of World Bank Conditionality, Operations Policy and Country Services, The World Bank, Washington, DC, September.

### 3.3. Streamlining delivery and minimising the error risk

#### 3.3.1. Simplification – reducing administrative costs and minimising the risk of error

##### 3.3.1.1. Option 1 – No policy change

- Reimbursements made on real costs; some optional simplified cost options
- No substantial guidance on e-Governance<sup>4</sup> at EU level for cohesion policy implementation
- National accreditation of management and control systems with 100% review by Commission

##### 3.3.1.2. Option 2 – Flexible approach

- Flexible payment options by operation to be determined by beneficiaries
- Guidance based approach to e-Governance
- Member State responsibility for the ex-ante review of management and control systems (pure national accreditation)

##### 3.3.1.3. Option 3 - Prescriptive approach

- Payments based on deliverables of the project
- Mandatory E-Governance at EU level
- Commission review of management and control systems

##### 3.3.1.4. Option 4 – Proportional approach

- Payments based on either real costs or simplified cost options
- Mandatory E-governance at MS or regional level
- Proportional approach to the ex-ante review of management and control systems

The main differences between the options relate to the level of Commission involvement in the assessment of management and control systems; to the availability of reimbursement options linked to results; and to the mechanisms for promoting e-governance in the context of cohesion policy.

Option 4, the proportional approach, is preferred because it leads to a significant potential reduction in the cost of controls and a decline in workload; for administrations the proportional approach to assurance would represent a decline in workload by around 4% compared to the no change option.

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<sup>4</sup> E-governance in cohesion policy would be to ensure that beneficiaries are not asked to submit the same information more than once, and that information is available and transmitted in electronic format.



It also better respects the subsidiarity principle. Furthermore, an additional reduction of 5-10% could be attained by simplification on national rules and procedures to implement EU regulations and by reduction of national gold plating (adding national requirements on top of EU rules).

### 3.3.2. *Coordination between cohesion policy instruments*

#### 3.3.2.1. Option 1 – No policy change

The programming of ERDF and the ESF takes the form of mono-fund programmes. Delimitation between the funds is essentially done on the basis of the type of investment. At operational level, "cross-financing" of certain investments is allowed thanks to a flexibility clause.

#### 3.3.2.2. Option 2 – Facilitating integrated programming

Under this option, Member States would be encouraged to **use multi-fund programmes** with common processes for preparation, negotiation, management and implementation. Where appropriate, a "lead fund" would be established, linked to the policy domain(s) of the programme. The lead fund's interventions would be complemented by interventions from the other structural funds so to ensure coherent support for the different thematic objectives under cohesion policy.

#### 3.3.2.3. Option 3 – One policy, one fund approach

Under this option, the programming of ERDF and the ESF could take the form of **mono-fund programmes or multi fund programmes** and creating strict delimitation between funds.

Option 2 provides for the highest efficiency gains as well as for the highest degree of flexibility. Option 1 places an additional administrative burden (because of cross financing provisions), and option 3 would create rigid demarcations.

## 4. MONITORING AND EVALUATION

The options presented in this Impact Assessment set out how the policy objectives and design would be reformulated to address three particular issues. In this respect, monitoring and evaluation plays an important role. Under all change options, the monitoring and evaluation systems will be reinforced in comparison to the current situation. The proposed changes to the monitoring and evaluation systems would improve the focus on results and alignment with the Europe 2020 strategy.

- All programmes will have a clearer intervention logic, clearly outlining how spending resources (inputs) on particular interventions (outputs) will contribute to the results.

A set of common indicators, aligned with EU2020 objectives, will be used in all programmes where relevant. These indicators will include mainly outputs but also some intermediate results.